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**Sent electronically through the IASB Website ([www.iasb.org](http://www.iasb.org))**

24 April 2009

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**[IASB Discussion Paper on Preliminary Views on Financial Statement Presentation](#)**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Discussion Paper. Our responses to the questions raised in your Discussion Paper are set out in the Appendix for your consideration.

We welcome the publication of the Discussion Paper (DP) since financial statement presentation is fundamental in assisting investors to compare the performance and financial condition of reporting entities. However, we have various concerns with the approach of the DP in general and with several proposals in particular. Our main concerns are the following:

- Although we agree that the cohesiveness principle on which the proposals are based provides a sound conceptual approach to presentation and facilitates understanding by users, we are concerned that the implementation of the cohesiveness principle in the DP is not done in a pragmatic way. The result is that an overall general picture or a financial snap-shot of the reporting entity is lost and also too lengthy/detailed information impair the cost-effectiveness of using information in financial statements for decision-making.
- We are not convinced that the option to prepare an indirect method cash flow statement should be eliminated. We are aware that some users prefer an indirect method that provides a helpful link between income from continuing operations, changes in some line items in the statement of financial position and net operating cash flows.
- We disagree with requiring a reconciliation schedule as proposed. We do not consider that reconciliation of every line item in the cash-flow/statement of comprehensive income is necessary or informative. We believe that reconciliation should focus on specific line items where the information on reconciling items is useful such as a reconciliation of the balance of the financial instruments at the beginning and end of the period including additions, disposals and remeasurement etc.



- The proposals in the DP would require significant changes to existing financial systems with commentators questioning whether the benefits would outweigh the significant costs expected to be incurred in changes to financial systems.

We recommend that much of the information which the DP proposes would be on the face of the financial statements may be better conveyed through note disclosure. This would allow the financial statements to remain concise and easy to understand.

If you have any questions on our comments, please do not hesitate to contact me at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours faithfully,

A handwritten signature in black ink that reads 'Steve Ong'. The signature is written in a cursive, flowing style.

Steve Ong  
Director, Standard Setting Department

SOMC/ac



## **Hong Kong Institute of CPAs**

### **Comments on the IASB Discussion Paper on *Preliminary Views on Financial Statement Presentation***

#### **Question 1**

- 1. Would the objectives of financial statement presentation proposed in paragraphs 2.5 – 2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.**

We broadly support the proposed objectives as long as an appropriate balance is struck between understandability and excessive information.

#### **Cohesiveness objective**

We agree with the objective of the cohesiveness principle as described in the DP and agree that understanding how the financial statements link together is important. However, we are concerned that the approach to classification, which starts with the statement of financial position and requires items of profit and loss to follow the classification based on the statement of financial position, may not always result in more decision-useful information. For example, in the case of defined benefit pensions as mentioned in paragraph 2.45, the net plan asset/liability would be classified, in the proposed presentation model, in the operating category of the statement of financial position and require that the associated items of profit and loss such as service cost, interest cost and return on plan assets follow this classification (i.e. operating category). Yet some users consider that the funding of the post-retirement benefit obligation is a financing activity and the interest cost and return on plan assets would appear to be more in the nature of investing or financing items rather than operating items.

#### **Disaggregation objective**

We agree that an entity should disaggregate its financial statements in a manner that is useful. However, we have concern with the proposal that the disaggregation objective should focus on information that is useful in assessing future cash flows. We think that other objectives of financial reporting outlined in the conceptual framework should also be addressed. In addition, we consider that in order to achieve a balance between too much and too little information, it is possible that in some instances, disclosure in the notes, as opposed to a requirement for disaggregation on the face of the financial statements, may be more helpful.



**2. Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?**

We believe that the separation of business activities from financing activities does provide decision-useful information, particularly in the statement of comprehensive income, as it can assist users of financial statements in assessing the performance of a company. We believe that what is important is that there should be principle-based definitions of operating, investing and financing activities in order to allow consistent classification across companies.

**3. Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52 – 2.55)? Why or why not?**

We consider that it is appropriate to present non-owner sources of finance separately from owner sources of finance and it would be more familiar to users to show equity as a separate section.

**4. In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71 – 2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?**

We agree that discontinued operations should be presented as a separate section and not be commingled within the continuing operations of the business. This separation permits users to assess the impact of discontinued operations to future cash flows. We believe that presenting this information in the notes to the financial statements is adequate.

**5. The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39 – 2.41).**

**(a) Would a management approach provide the most useful view of an entity to users of its financial statements?**

**(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?**



(a) & (b)

We agree in principle that an entity should classify its assets and liabilities using a management approach because we think that such approach helps users to understand an entity's business model and can provide more insight on how differently the assets and liabilities are employed by different companies. However we are concerned that in practice, the potential for subjective definition and changes in classification over time will present a major challenge to most financial statement users in understanding the financial statements. We believe that the management approach would provide a useful view of an entity to users if there are high quality disclosure notes that clearly explain the reasons for classification decisions.

- 6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?**

While we support the concept of separate disclosure of assets and liabilities using the business and financing classifications, we do not agree with the proposal that this information be required to be provided in the statement of financial position.

We consider that the approach proposed would result in the separate presentation of net assets for each section in the statement of financial position and assets of one type will no longer be shown together. The statement will have many more lines than at present. We are of the view that the statement of financial position should remain concise with highlights on total current and non-current assets and liabilities. More detailed information such as the classification into business and financing sections should be provided in the notes.

We agree that the presentation of both assets and liabilities in the same category will make it easier to calculate certain ratios. However, as per our answer to question 5, we are concerned that classification by management approach may involve arbitrary allocations that leads to reduced comparability across entities.

- 7. Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.**

We do not support the proposal that entities with more than one reportable segment for segment reporting purposes should classify assets and liabilities at the reportable segment level. We are concerned that such level of classification would result in unnecessary detail and require a lot of arbitrary allocations.



- 8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.**

We are concerned that some of the line items required to be disclosed under IFRS 8 *Operating Segment* such as total assets and total liabilities may no longer be presented on the face of the statement of the financial position under the new proposals. However, before considering whether there is a need to change the disclosure requirements under IFRS 8, we would encourage the IASB to carry out an early post-implementation review of IFRS 8 in order to consider whether it is working effectively and in the way as intended.

- 9. Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31 – 2.33 and 2.63 – 2.67)? Why or why not?**

We generally agree with the proposed definition of the business section as the entity's value-creating activities and the further split into operating category on the basis of "central" value creating activities and investing category as "non-central" value creating activities. However, we consider that the references to the nature of returns such as interest, dividends and capital gains in the definition of investing in paragraph 2.33 are not consistent with the notion of a core/non-core split.

- 10. Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56 – 2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?**

Although we consider that the majority of assets and liabilities classified in the financing section will be financial assets and financial liabilities, we do not agree with the proposal that prohibits classification of non-financial assets and liabilities in the financing section. We consider that it is inconsistent with the management approach to classification as proposed in the DP.

- 11. Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.**

- (a) What types of entities would you expect not to present a classified statement of financial position? Why?**



**(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?**

(a) We agree with the examples (such as deposit-taking or insurance companies) listed in paragraph 3.6 are the types of entities that liquidity information is often more important than an arbitrary split between short-term and long-term. We suggest that entities should be required to explain why they have chosen the presentation in order of liquidity in the accounting policy if they do so.

(b) We considered that the guidance provided in the DP is sufficient.

**12. Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?**

We agree with the reasoning set out in paragraphs 3.17 - 3.18 and support the proposal to classify cash equivalents in a manner similar to other short-term investments, separately from cash.

**13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?**

We agree that disaggregation of assets and liabilities that are measured on different bases provide more decision-useful information. However, we do not automatically agree with paragraph 3.20 that it should be done on the face of the statement of financial position. We consider that providing the information in the notes is sufficient otherwise it could make the statement of financial position lengthy and less understandable.

In addition, we recommend that the IASB clarifies the term “measurement bases”. For example, is an asset that is carried at cost less an impairment provisions measured on a different measurement basis to those still carried at cost?

**14. Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24 – 3.33)? Why or why not? If not, how should they be presented?**

We do not have particular comments on this proposal. In our view, the choice regarding one or two statements does not result in significant incomparability between entities as the current disaggregation between profit or loss/net income and other comprehensive income is maintained.

However, we consider that a more fundamental issue relates to the current inconsistencies within IFRSs on whether fair value measurements are taken



directly to profit or loss or “other comprehensive income” (OCI) and, if they are taken to OCI, whether or not they are recycled to profit or loss. In particular, we find it inconsistent that valuation gains on investment properties are required to be taken to profit or loss while valuation gains on available-for-sale investments and own-use property are taken to OCI. We also find it inconsistent that valuation movements on available-for-sale investments are recycled to profit or loss whereas those relating to own-use properties are not. We consider that this issue should be addressed as part of this presentation project.

- 15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37 – 3.41). Would that information be decision-useful? Why or why not?**

We agree that indicating the category to which items of other comprehensive income relate would help users to understand better the relationship between the statement of comprehensive income and the statement of financial position.

- 16. Paragraphs 3.42 – 3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity’s future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?**

We are broadly supportive of the proposals in the DP that an entity should disaggregate by function income and expenses within the operating category in the statement of comprehensive income and then provide some further disaggregation of those numbers by nature to the extent that it enhances the usefulness of the information in predicting the entity’s future cash flow. However, we do not understand how the “functional” analysis would be applicable to the financing and investing categories i.e. it would seem that items within those categories would typically be disclosed by nature.

We agree with paragraph 3.46 that if management consider that the statement of comprehensive income is getting too lengthy and/or too detailed, the disaggregation by nature information can be presented in the notes to financial statements.

- 17. Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56 – 3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.**

We agree with the proposal that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with present requirements given the practical difficulties associated with allocating income



taxes to the operating, financing and investing categories.

**18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.**

- (a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.**
- (b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?**

We agree in principle that presenting foreign currency transaction gains/losses in the same section and category as the asset or liability can provide decision-useful information to users. However, we are concerned with the practical difficulties in allocating foreign currency transaction gains/losses in complex transactions such as intercompany accounts and hedges. Also, allocation of the gain/loss on remeasurement of an entity's local currency financial statements into the functional currency would in many cases require a lot of arbitrary assumptions and allocations, which would reduce the usefulness of the financial information.

**19. Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.**

- (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?**
- (b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75 – 3.80) than an indirect method? Why or why not?**
- (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?**

(a) & (b)

We consider that both the direct and indirect method of presenting operating cash flows would provide decision-useful information and can meet the proposed cohesiveness and disaggregation objectives. As mentioned in paragraph 3.79, some users prefer an indirect method because it provides a helpful link between income from continuing operations, changes in some line items in the statement of financial position and net operating cash flows. Therefore, we believe that the DP has not made a sufficiently persuasive argument that the direct method of presenting operating cash flow provides information that is more decision-useful

than an indirect method.

(c)

We note that there are certain substantive similarities between the indirect method and the proposed reconciliation schedule. However, unlike the indirect method, the reconciliation schedule does not contain a direct link into the statement of financial position.

**20. What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81 – 3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?**

We acknowledge that entities have concerns about being required to use a direct method for presenting the statement of cash flows as much of the required information is not readily available. Direct capture of cash flows may require significant changes to existing financial systems. Moreover, it is doubtful that the benefits would outweigh the costs.

**21. On the basis of the discussion in paragraphs 3.88 – 3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?**

We perceive that there would be many practical difficulties in allocating the effects of basket transactions to the related sections and categories in the statement of comprehensive income. We agree with the disadvantages as mentioned in the paragraph 3.92 that any allocation method being used to allocate the effects of basket transactions would be arbitrary, at least to some extent. We do not support allocating of the total effects of the basket transactions on the face of the financial statements. We prefer the approach of presenting the total effect in a separate section (Alternative C) supported by note disclosure, which would be sufficient to meet the needs of users.

**22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?**

We consider that information about maturity should be provided in both situations where an entity presents a classified statement of financial position (short-term and long-term sub-categories for assets and liabilities) or when a presentation of assets and liabilities in order of liquidity, and that that information should cover both short-and long-term contractual assets and liabilities. We acknowledge that there will be an overlapping between this proposal and the latest amendments to

IFRS 7 – *Improve Disclosures about Financial Instruments*. We recommend that an integrated approach should be adopted when considering the future development of these requirements.

**23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.**

- (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.**
- (b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.**
- (c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44 – 4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.**

(a) – (c)

In principle, we agree that the understandability of the financial statements can be improved if more information that links the statement of cash flows with the statement of comprehensive income is disclosed. However, we disagree with the proposed reconciliation schedule in the DP for several reasons:

- we consider the reconciliation schedule will result in lengthy note disclosure and that users will be faced with too many numbers that could make the financial statements less understandable.
- we doubt the usefulness of the “accruals, allocations and other” column which includes all the accruals made during the period, systematic allocation and all other changes in assets and liabilities as described in paragraph 4.45. We think most of the numbers in that column will usually be of relatively little information value. It is unclear whether users would find the reconciling items useful in decision-making.
- we are not convinced that the proposed line-by-line reconciliation is necessary and useful. For example, the difference between “cash paid for advertising expense” and “advertising expense” may not be of interest to users. We believe that users would like to have more information on long term accruals which indeed can be found in the notes to the financial statements.



We support the provision of additional information on remeasurement in the proposed reconciliation schedule. We are of the view that the reconciliation should focus on specific line items where reconciliation is really useful such as a reconciliation of the balance of the financial instruments at the beginning and end of the period including additions, disposals and remeasurement etc.

**24. Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?**

We agree with the proposal to address further disaggregation of changes in fair value in a future project. We believe that the statement of comprehensive income would have greater analytical value if the sources of the changes were identified and presented.

**25. Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10 – B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?**

As mentioned in our response to question 23, we do not support the proposed reconciliation schedule for all items and propose that the reconciliation should focus on specific line items where such a reconciliation is really useful.

**26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48 – 4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.**

- (a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?**
- (b) APB Opinion No. 30 Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?**
- (c) Should an entity have the option of presenting the information in narrative format only?**



- (a) We believe that users would like to have information about events and transactions that are genuinely unusual or infrequent as it enables them to identify the recurring items and use those to make assessments about the future. However, as we do not prefer to have a reconciliation schedule (see above our responses to questions 23), we consider that this information would better be disclosed in the notes to the financial statements.
- (b) We do not support that the IASB produces a definition of terms such as “unusual” and “infrequent” events and transactions since it would be regarded as a step towards the reinstatement of extraordinary items.
- (c) Yes, we support an entity highlights infrequent or unusual items in the notes to the financial statements. This also provides greater flexibility to describe the financial effect of an infrequent or unusual event when that financial effect straddles more than one accounting period, for example when a legal case becomes protracted and results in changes in provisions and legal expenses being recorded in more than one period.