10 November 2008

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB DISCUSSION PAPER ON *PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION*

Comments to be received by 13 March 2009

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Discussion Paper which has been posted on the Institute's website at:
www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/content.php.

The Discussion Paper is the result of a joint project by the IASB and the US Financial Accounting Standards Board (FASB) (collectively the boards) to create a standard that requires entities to organise financial statements in a manner that clearly communicates an integrated financial picture of the entity.

International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) provide only limited presentation guidance. In addition, presentation guidelines in US GAAP are dispersed across standards. Moreover, users of financial statements have often expressed dissatisfaction that information is not linked across the different statements and that dissimilar items are in some cases aggregated in one number.

To address these issues the boards propose to introduce cohesiveness and disaggregation as the two main objectives for financial statement presentation. Cohesiveness would ensure that a reader of financial statements can follow the flow of information through the different statements of an entity; disaggregation would ensure that items that respond differently to economic events are shown separately. To achieve these main objectives the boards have developed a principle-based format that is presented in the discussion paper.

--- A summary of the main proposals in the Discussion Paper is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Discussion Paper. Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Discussion Paper to be considered, they are requested to be received by the Institute on or before **13 March 2009**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

Appendix

Summary of the main proposals in the Discussion Paper

(1) Objectives underlying the proposed presentation model

The boards developed three objectives for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed objectives state that information should be presented in the financial statements in a manner that:

(a) portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible.

(b) disaggregates information so that it is useful in predicting an entity's future cash flows. Financial statement analysis aimed at objectives such as assessing the amount, timing and uncertainty of future cash flows requires financial information that is disaggregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows.

(c) helps users assess an entity's liquidity and financial flexibility. Information about an entity's liquidity helps users to assess an entity's ability to meet its financial commitments as they become due. Information about financial flexibility helps users to assess an entity's ability to invest in business opportunities and respond to unexpected needs.

(2) Proposed format for financial statements

The proposed presentation model requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).

(a) An entity should further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.

(b) An entity should present information about the financing of its business activities separately depending on the source of that financing. Specifically, information about non-owner sources of finance (and related changes) should be presented separately from owner sources of finance (and related changes).

(c) An entity should present information about its discontinued operations separately from its continuing business and financing activities.

(d) An entity should present information about its income taxes separately from all other information in the statements of financial position and cash flows. In its statement of comprehensive income, an entity should separately present information about its income tax expense (benefit) related to:

(i) income from continuing operations (the total of its income or loss from business and financing activities)

(ii) discontinued operations

(iii) other comprehensive income items.

The table below illustrates the proposed classification scheme for the financial statements (with sections in bold italic and categories in bullet point format). An entity may present the sections and categories within a section in a different order as long as the order is the same in each statement. Each section and category within a section would have a subtotal. The statement of comprehensive income would also include a subtotal for profit or loss or net income and a total for comprehensive income. The statement of changes in equity is not included in this table because it would not include the sections and categories used in the other financial statements.

Statement of financial position	Statement of comprehensive income	Statement of cash flows
Business • Operating assets and liabilities • Investing assets and liabilities	***Business*** • Operating income and expenses • Investment income and expenses	***Business*** • Operating cash flows • Investing cash flows
Financing • Financing assets • Financing liabilities	***Financing*** • Financing asset income • Financing liability expenses	***Financing*** • Financing asset cash flows • Financing liability cash flows
Income taxes	***Income taxes*** on continuing operations (business and financing)	***Income taxes***
Discontinued operations	***Discontinued operations***, net of tax	***Discontinued Operations***
	Other comprehensive income, net of tax	
Equity		***Equity***

(3) Classification guidance

To prepare financial statements using the classification scheme, an entity should first classify its assets and liabilities into the sections and categories in the statement of financial position; that classification will determine the classification in the statements of comprehensive income and cash flows. Classification should be consistent with how the asset or liability is used within an entity and the way an entity views its activities. An entity with more than one reportable segment should classify items according to how they are used in its reportable segments. This approach should allow management to communicate the unique aspects of its business(es) to users of its financial statements. The classification decision would reside with management and its classification rationale would be presented in the notes to financial statements as part of the accounting policy discussion. The boards support a management approach to classification rather than a prescriptive approach because they believe it will result in financial statements that reflect how management views and manages the entity and its resources.

(4) Presenting a cohesive set of financial statements

To present a cohesive set of financial statements, an entity should align the line items, their descriptions and the order of presentation of information in the statements of financial position, comprehensive income and cash flows. To the extent that it is practical, an entity should disaggregate, label and total individual items similarly in each statement. Doing so should present a cohesive relationship at the line item level among individual assets, liabilities, income, expense and cash flow items.

(5) How the financial statements might change

(a) Statement of financial position

As illustrated in the table above, the statement of financial position would be grouped by major activities (operating, investing and financing), not by assets, liabilities and equity as it is today. The presentation of assets and liabilities in the business and financing sections will clearly communicate the net assets that management uses in its business and financing activities. That change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows should make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities.

Assets and liabilities would be disaggregated into short-term and long-term subcategories within each category unless an entity believes presenting assets and liabilities in order of liquidity provides more relevant information. Totals for assets and liabilities and subtotals for short-term and long-term assets and liabilities would be presented in the statement of financial position or in the notes to financial statements.

(b) Statement of comprehensive income

The proposed presentation model eliminates the choice an entity currently has of presenting components of income and expense in an income statement and a statement of comprehensive income (two-statement approach) or, alternatively, of presenting information about other comprehensive income in its statement of changes in equity (US generally accepted accounting principles only). All entities would present a single statement of comprehensive income, with items of other comprehensive income presented in a separate section. This statement would include a subtotal of profit or loss or net income and a total for comprehensive income for the period. Because the statement of comprehensive income would include the same sections and categories used in the other financial statements, it would include more subtotals than are currently presented in an income statement or a statement of comprehensive income. Those additional subtotals will allow for the comparison of effects across the financial statements. For example, users will be able to assess how changes in operating assets and liabilities generate operating income and cash flows.

Another important aspect of the boards' proposed presentation model is that an entity should disaggregate line items when such presentation will enhance the usefulness of the information in predicting future cash flows. In addition to classifying its income and expense items into the operating, investing and financing categories, an entity should disaggregate those items on the basis of their function within those categories. An entity should further disaggregate its income and expense items by their nature within those functions to the extent that this disaggregation will help users in predicting the entity's future cash flows.

- Function refers to the primary activities in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration.

- Nature refers to the economic characteristics or attributes that distinguish assets, liabilities, and income and expense items that do not respond equally to similar economic events. Examples of disaggregation by nature include disaggregating total revenues into wholesale revenues and retail revenues or disaggregating total cost of sales into materials, labour, transport and energy costs.

(c) Statement of cash flows

In the statement of cash flows, an entity should present separately the main categories of its cash receipts and payments for operating activities, such as cash collected from customers and cash paid to suppliers to acquire inventory (a direct method), rather than reconciling profit or loss or net income to net operating cash flows (an indirect method) as most entities do today. The boards observed that a direct method is more consistent than an indirect method with the proposed objectives of financial statement presentation. Presenting cash receipt and cash payment line items in the operating category provides a more useful disaggregation of cash flow information. In addition, a direct method presentation helps users relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments.

(d) New reconciliation schedule

The proposed presentation model includes a new schedule (to be included in the notes to financial statements) that reconciles cash flows to comprehensive income. This reconciliation schedule disaggregates income into its cash, accrual other than remeasurements, and remeasurement components (for example, fair value changes). Users analyse those components separately because the components often differ in their ability to help users predict future cash flows and assess earnings quality.