



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

23 September 2008

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

Dear Sirs,

[IASB Exposure Draft of An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information](#)

The Hong Kong Institute of CPAs 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 Exposure Draft. We support this joint project of the IASB and the FASB to update their existing separate frameworks and develop a common conceptual framework for financial reporting.

We generally agree with the IASB's and the FASB's view on the objective of general purpose financial reporting and qualitative characteristics of decision-useful financial reporting information. However, we have some concerns regarding the authoritative status of the conceptual framework as well as the lack of priority that this project is being given to other projects on the IASB's active agenda. A complete and comprehensive conceptual framework is the cornerstone of any consistent and coherent principles based accounting regime, and should be staffed and prioritised to reflect that importance.

In addition, in respect of the qualitative characteristics of decision-useful financial reporting information, we believe that understandability is a required and fundamental characteristic of decision-useful information rather than an enhancing qualitative characteristic.

Furthermore, the assumption of going concern and the concept of substance over form are essential to the achievement of principles-based accounting and as such need to be included within the framework. Finally we want to re-iterate the importance of stewardship as an objective of financial reporting.

Our responses to the specific questions raised in the Exposure Draft are set out in the Appendix for your consideration. If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours sincerely,

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Deputy Director, Standard Setting Department

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Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft of *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

General

Authoritative status of the framework

A common goal of the IASB and the FASB (the Boards) is for their standards to be clearly based on a consistent framework that provides principles to guide both future standards development and application by preparers. We also note that the Boards have yet to reach a common conclusion on the authoritative status of the common conceptual framework.

In order to ensure consistency in application across both US GAAP and IFRS it is essential that the framework have consistent authoritative status in both regimes. Equally, to ensure consistency and compliance with the principles in the framework, both in development of new standards but also application of those standards by preparers, the framework must be given the appropriately high authoritative status.

We therefore recommend the Boards ensure the conceptual framework retains the same authoritative status it currently holds within IFRS.

Chapter 1: The Objective of Financial Reporting

We generally agree with the Boards' view that the fundamental objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers.

We also support the boards' view that generally financial reports should reflect the perspective of the entity rather than the perspective of the entity's proprietors or owners and accordingly do not agree that an entity's financial statements should be prepared from the proprietary perspective. Nevertheless, this should not be necessarily construed as acceptance of the economic entity approach, which is the topic of the recently issued discussion paper and not this Exposure Draft.

Primary users of financial statements – investors and creditors

We would like to raise for consideration the different needs of the various credit providers in many situations and query how such differing needs will be considered. For instance in exchange-traded funds it could be argued that serving shareholders' information needs should be considered to be more important than those of lenders and other creditors. In this respect, we recommend the Boards to consider to whom the Boards would like to focus on in the subsequent issuance of each particular standard or interpretation as currently both equity investors and creditors are placed on the same category of importance.



Stewardship

We appreciate the Board's effort in addressing specifically the stewardship responsibilities of management in the framework. However, we believe that the significance of the concept of stewardship should not be subsumed within a decision usefulness objective.

As mentioned in our submission at the Discussion Paper stage, the majority of business entities in the private sector are small or medium-sized unlisted entities where one of the primary users of financial statements – existing shareholders – rely on the financial statements to help them to monitor the management of the entity's operations. Without setting the concept of stewardship as a separate objective of financial reporting, we are doubtful as to whether financial reporting can help management in discharging their responsibilities.

We therefore ask the Board to reassess the significance of the concept of stewardship and its ranking in financial reporting objectives.

Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

We agree with the Boards' identification of the two fundamental qualitative characteristics and a number of additional characteristics which enhance the decision-usefulness of financial information that are complementary to the fundamental qualitative characteristics. However, we regard understandability as perhaps the most important amongst the fundamental qualitative characteristics, as we believe that information cannot be assessed as being either relevant or decision useful if it cannot be understood by a motivated user, with knowledge of business and economic activities, after conducting reasonable diligence (which may include seeking the aid of an advisor or other expert) – the requirements set out in QC 24, with which we concur.

Accordingly, we believe that understandability is a required and fundamental characteristic of decision-useful information rather than an enhancing qualitative characteristic.

Faithful representation

In our comment letter in response to the discussion paper we raised concern about the removal of the concept of the true and fair view. We have followed the subsequent debate and under the Boards' belief the concept is subsumed within the qualitative characteristic of faithful representation. Our concern is that there is some inconsistency in this belief.

The Board has previously asserted that true and fair or fair presentation is not in and of itself a qualitative characteristic but instead will result from applying the qualitative characteristics. It has also asserted that true and fair view and faithful representation are the same. However, paragraph BC2.41 concludes that "The boards agreed with the conclusions reached in the existing IASB *Framework*. True and fair view or fair presentation is not a qualitative characteristic and instead should result from applying the qualitative characteristics. The boards also observed that for financial reports to present a true and fair view or to present fairly is the same as faithful representation,



which is already included as a qualitative characteristic". Based on the Boards' view, true and fair view or fair presentation is the outcome by having applied the qualitative characteristics, including faithful representation. Therefore faithful representation, which is identified as a qualitative characteristic, is not the same as true and fair view.

In this respect, we recommend the Boards to make appropriate amendment in the proposed Basis for Conclusions so as to ensure logical consistency between the qualitative characteristic of faithful presentation and the outcome of applying those qualitative characteristics, that is, the true and fair view.

Substance over form

We express concern at the absence of any discussion of substance over form in the conceptual framework. In our view, the concept of substance over form should be explicitly stated in the framework to serve as guidance that the substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. Such concept is especially important in revenue recognition, lease determination and identification of related party relationship.

We consider that substance over form is central to the achievement of principles-based accounting. The absence of the concept of substance over form as a component of faithful representation may lead to a demand for more rules in the existing reporting regime, which will result in undermining the IASB's efforts in developing principles-based financial reporting standards.

Going concern

As mentioned in our last submission, going concern, being one of the two underlying assumptions for the preparation of financial statements in the current IASB framework, is not addressed in the Exposure Draft. The presentation, measurement as well as the disclosure of the financial statements will be changed dramatically if an entity has the intention to liquidate or curtail materially its scale of operations in the foreseeable future. We therefore ask the boards to address the assumption of going concern in some form in this joint project.