



9 July 2008

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

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF AN IMPROVED
CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING:**

CHAPTER 1: THE OBJECTIVE OF FINANCIAL REPORTING
**CHAPTER 2: QUALITATIVE CHARACTERISTICS AND CONSTRAINTS OF
DECISION-USEFUL FINANCIAL REPORTING INFORMATION**

Comments to be received by 29 August 2008

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

The IASB and the US Financial Accounting Standards Board (FASB) (collectively the boards) are working on a joint project to develop a common conceptual framework for financial reporting that is both complete and internally consistent. The common conceptual framework will provide a basis for developing future accounting standards.

This Exposure Draft reflects the boards' updated proposals in the light of comments received on a discussion paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* published in July 2006. It now proposes that the objective of financial reporting is to provide financial information that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Financial reports should communicate information about an entity's economic resources, claims on those resources, and the transactions and other events and circumstances that change them. It also presents an improved description of "faithful representation", one of the qualitative characteristics that financial information should possess if it is to provide a useful basis for economic decisions.

A summary of the main proposals in the Exposure Draft 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 Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **29 August 2008**.



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.

Summary of the main proposals in the Exposure Draft

Chapter 1: The Objective of Financial Reporting

The Exposure Draft discusses the objective of general purpose financial reporting for business entities in the private sector. It also describes the primary user group for financial reporting and their financial information needs. Views expressed in Chapter 1 include the following:

- An entity's financial reporting should be prepared from the perspective of the entity rather than that of its owners or a particular class of owners.
- Present and potential capital providers are the primary user group for general purpose financial reporting.
- The objective of financial reporting should be broad enough to encompass all the decisions that equity investors, lenders, and other creditors make in their capacity as capital providers, including resource allocation decisions and decisions made to protect and enhance their investments.
- Information about stewardship of an entity's economic resources is important decision-useful information for current and potential capital providers.

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

Qualitative characteristics are the attributes that make financial reporting information useful. In the Exposure Draft, the qualitative characteristics are distinguished as fundamental qualitative characteristics and enhancing qualitative characteristics. Fundamental characteristics differentiate useful information from information that is not useful, whereas enhancing characteristics differentiate more useful information from less useful information.

Fundamental Qualitative Characteristics

- Relevance – information is relevant if it is capable of making a difference in the decisions made by users in their capacity as capital providers (i.e. it has predictive value, confirmatory value or both).
- Faithful representation – information faithfully represents a situation when it reflects the economic substance of the underlying transactions in a complete and neutral manner that is free from material error.

The Exposure Draft proposes that faithful representation encompasses all the key qualities that the existing frameworks included as aspects of reliability and the boards proposes to replace the term “reliability” with “faithful representation” to reduce misunderstanding among the constituents.

Enhancing Qualitative Characteristics

In the Exposure Draft, the boards believe that if information is not relevant or not faithfully represented, the enhancing qualitative characteristics cannot make information decision-useful. The Exposure Draft proposes that enhancing qualitative characteristics comprise comparability, verifiability, timeliness and understandability.

The Exposure Draft identifies materiality and cost as two pervasive constraints on providing decision-useful financial reporting information.