



Our Ref.: C/FRSC

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

6 October 2010

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

Dear Sirs,

[IASB Exposure Draft of Presentation of Items of Other Comprehensive Income \(Proposed Amendments to IAS 1\)](#)

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 Exposure Draft (ED). Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We are supportive of the IASB's objective of bringing greater clarity and consistency to financial statement presentation. However, we believe that the IASB should develop a set of consistent principles which address the more fundamental conceptual issues concerning profit or loss and other comprehensive income. These include the following inter-related questions:

- (a) Should all gains/losses that relate to financial performance be recognized in "profit or loss"?
- (b) If not, what type of gains/losses should be included in "other comprehensive income (OCI)"?
- (c) What is the purpose of labeling these items under "OCI"?
- (d) What is the basic principle that supports "recycling" some or all of these items from "OCI" to "profit or loss"?

We agree with the dissenting view as set out in paragraphs AV3 and AV4 and believe that the Board should address the purpose of the different elements of the performance statements. It is essential that the Board establishes a clear conceptual basis for presentation in either profit or loss and OCI. We believe it is premature to eliminate the two-statement option before a thorough conceptual consideration of the purpose of OCI. The basis for conclusions states that the exposure draft is presented separately from the main proposals on financial statement presentation mainly to align more closely the effective date of these amendments with those of the proposed amendments to IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. We note that the proposed changes to IAS 19 and IFRS 9 will add additional items to OCI and believe this is a compelling reason to address the fundamental conceptual issues mentioned above.



If the IASB decides to finalise this exposure draft before dealing with the more fundamental issues, we believe that the IASB should make it clear in the basis for conclusions that the outcome of this exposure draft would not in any way pre-empt the outcome of the more fundamental issues.

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

Yours faithfully,

Steve Ong, FCA, FCPA
Director, Standard Setting Department

SO/WC/jn



Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft of *Presentation of Items of Other Comprehensive Income (Proposed Amendments to IAS 1)*

Statement of profit or loss and other comprehensive income

Question 1

The Board proposes to change the title of the statement of comprehensive income to ‘Statement of profit or loss and other comprehensive income’ when referred to in IFRSs and its other publications. Do you agree? Why or why not? What alternative do you propose?

We do not support the IASB's decision to eliminate the option of presenting performance in two statements at this time as discussed further in Question 2. The proposed change in the title is based on the premise that only one statement is presented. We support the retention of an option for preparers to use an alternative title if this is deemed to be more appropriate in their circumstances.

Question 2

The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections – profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable. Do you agree? Why or why not? What alternative do you propose?

As discussed in our covering letter, we believe that the IASB should address the more fundamental conceptual issues concerning profit or loss and OCI. In the absence of a clear conceptual basis of what OCI is, we are of the view that it is premature to eliminate the two-statement option. In addition, some of our constituents have doubts on whether items in OCI should be presented with the same prominence as items within profit or loss. Without a clear conceptual basis, it would be difficult at this stage to conclude that presenting a single performance statement is more desirable.

Presentation of items of other comprehensive income

Question 3

The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss. Do you support this approach? Why or why not? What alternative do you propose, and why?

In the absence of a clear basic principle that indicates when an item should be “recycled”, we agree that users may currently be confused by the diverse rules in



various IFRSs concerning which items are required to be recycled (e.g. foreign exchange reserves under IAS 21 and fair value reserves arising on available-for-sale investments under IAS 39) and those which are not permitted to be recycled (e.g. fair value reserves arising on revaluation of property, plant and equipment under IAS 16 and actuarial reserves arising under IAS 19). We therefore believe that clearly distinguishing between the two categories of OCI items would provide useful information. However, we do not consider that this issue is of such concern as to require amendment to IAS 1 at this time and would prefer the IASB to address the more fundamental issues in respect of OCI and recycling as highlighted in our covering letter.

If the IASB decides to proceed with the requirement, we believe that the IASB should clarify whether the disclosures in paragraph 82A(a) are also applicable to share of OCI of associates and jointly controlled entities accounted for using the equity method.

Question 4

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax. Do you support this proposal? Why or why not? What alternative do you propose and why?

Consistent with Question 3, we disagree with the proposal.

We also do not believe it is necessary to separate on the face of the OCI statement the income tax effect between items which will and will not be recycled. Such disclosures, if required could be made within the footnote disclosures. Adding additional disclosures on the face of the financial statements makes them complex and less readable and understandable.

Benefits and costs

Question 5

In the Board's assessment:

(a) the main benefits of the proposals are:

- (i) presenting all non-owner changes in equity in the same statement**
- (ii) improving comparability by eliminating options currently in IAS 1**
- (iii) maintaining a clear distinction between profit or loss and items of other comprehensive income**
- (iv) improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss.**

(b) the costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments



Do you agree with the Board's assessment? Why or why not?

Some of our constituents have reservations on the benefits of the proposals as stated. These constituents also do not believe that the proposals will result in significant improvement in the comparability of financial statements.

Other comments

Question 6

Do you have any other comments on the proposals?

We understand that the Board currently has on its agenda a project on financial statement presentation. Based on the staff draft, the contemplated changes to the presentation of financial statements are extensive and will require reporting entities to undertake a substantial redesign of their financial statements and related notes. We have concerns about separately addressing the presentation of OCI when the proposed changes to the broader financial statements would likely require substantial changes beyond those contemplated in the exposure draft. In addition, constituents should have the opportunity to comment on the proposed changes to the statement of comprehensive income as part of the broader exposure draft on financial statement presentation.

~ End ~