



Conceptual Framework for Financial Reporting

HKICPA Standard Setting Department Staff Summary (November 2010)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. This version of the *Conceptual Framework*, which is effective upon issue, includes the first two chapters of the conceptual framework project – Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information*. These new chapters do not change the purpose or status of the existing frameworks.

Reasons for updating Conceptual Framework

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in updating *Conceptual Framework* is to maintain international convergence arising from the completion of the first phase of the International Accounting Standards Board's (IASB) and the US Financial Accounting Standards Board's joint project to develop an improved conceptual framework for IFRSs and US generally accepted accounting practices (GAAP).
3. The objective of the boards' joint conceptual framework project is to create a sound foundation for future accounting standards that are principles-based, internally consistent and internationally converged.

Main features of Conceptual Framework

Chapter 1 *The objective of general purpose financial reporting*

4. The objective of general purpose financial reporting is:
To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.
5. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports



are directed.

6. General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

Chapter 3 *Qualitative characteristics of useful financial information*

7. The chapter on qualitative characteristics deals with the attributes that make financial information useful. They are:
 - Relevance and faithful representation – the fundamental qualitative characteristics
 - Comparability, timeliness, verifiability and understandability – the enhancing qualitative characteristics that distinguish more useful information from less useful information.
8. Relevant financial information is capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.
9. Financial information that faithfully represents economic phenomena has three characteristics – it would be complete, neutral and free from error.
10. Cost is a pervasive constraint on the reporting entity's ability to provide useful financial information. Thus, the cost to report certain financial information should be justified by the benefits of providing that information.

Other references on *Conceptual Framework for Financial Reporting*

1. Deloitte IFRS in Focus on the first phase of joint project on Conceptual Framework
<http://www.iasplus.com/iasplus/1010conframework.pdf>
2. Ernst & Young "Supplement to IFRS outlook" on Conceptual Framework
[http://www.ey.com/Publication/vwLUAssets/Supplement_86_GL_IFRS/\\$File/Supplement_86_GL_IFRS.pdf](http://www.ey.com/Publication/vwLUAssets/Supplement_86_GL_IFRS/$File/Supplement_86_GL_IFRS.pdf)
3. KPMG IFRS Briefing Sheet on Conceptual Framework
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/IFRS-Briefing-Sheet/Documents/IFRS-Briefing-Sheet-O-1010-213.pdf>

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