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Dear Sirs

Re: IASB Discussion Paper on Preliminary Views on Financial Statement Presentation

In response to the above, please find enclosed CIMA Hong Kong Division's responses to your questionnaire.

Thank you.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Damian YIP', is written over a large, stylized, hand-drawn signature line.

Damian YIP
Divisional Director
CIMA Hong Kong Division

1 Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity’s financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

We concur that the objectives of financial statement presentation including cohesiveness objective, disaggregation objective and liquidity and financial flexibility objectives would improve the usefulness of the information provided in an entity’s financial statements and help users make better decision whether as capital providers or for other relevant purposes.

Our rationale for this comment is based on the concept of consistency and standardization. Today, transactions or events recognised in financial statements are presented differently each of the statements. This makes it difficult for users to understand how the information in one statement relates to information in the other statements.

No other objectives need to be considered in this respect for the reason expounded above.

2 Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

We consider the separation of business activities from financing activities provided information that is more relevant and useful those provided in the financial statement formats used today.

We argue that financing activities undertaken by a corporation would more likely to be centralized within the remit of corporate finance department. Business units with their main focus on the

economic activities of the corporation are not involved in financial activities. To combine these activities would tend to be misleading.

3 Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

We consider that entity should be presented as a separate section from financing section in the interest of greater transparency and in order not to compromise the integrity of the information relating to financial activities.

4 In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

We concur that an entity should present its discontinued operations in a separate section to differentiate from the normal business operations. No doubt users of financial statements would find this separation of discontinued from continued operations help to provide decision-useful information to assess the future potential of the company.

We consider that an entity need not present information about its discontinued operations in the relevant categories as the costs of doing so may outweigh its benefits.

5 The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

We consider that management approach would not necessarily

provide the most useful view of an entity to users of financial statements. Rather such classification should be standardized to facilitate comparison between companies within the same industry.

Management approach may lead to aggregated chaos with the result that assets and liabilities are classified differently within the same industry to no avail. This would likely reduce comparability of financial statements.

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

No as explained above.

6 Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

Yes. This would ensure that the information is well aligned and consistent across the financial statements.

7 Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

We consider that classification of assets and liabilities by entities that have more than one reportable segment should be made at the reportable segment level and not at the entity level. No apparent useful purpose is served to provide such detailed information at the entity level. Furthermore the costs would outweigh the benefits.

8 The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive

income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

We consider that the current reporting model that deals with reportable segment is adequate. Further breakdown may not necessarily provide more decision-useful information.

9 Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

As long as the core and non-core business activities are reported separately, users of the financial statements would be able to gain a better understanding of the business and its future potential. They would be in a better and informed position to predict the future cash flow of the business.

10 Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and US GAAP as proposed? Why or why not?

We do not see a problem at this point of the classification of the assets and liabilities as defined in the discussion paper.

11 Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect not to present a

classified statement of financial position? Why?

We cannot think of any exception to this general ruling. However, we consider that non-profit making organizations should be dealt with separately as they are incorporated for different purposes.

(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

No additional guidelines are needed at this stage. Entities that may fall within this category to prepare financial position in order to liquidity should be asked to justify their decision for doing so. Such justifications should be explained in their accounting policies.

12 Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

We consider that cash should be shown separately and cash equivalent should not be included as part of cash as the information is decision-useful and there is no additional cost associated with this presentation requirement.

13 Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

We consider that further disaggregation of such information due to the different bases underlying the valuation of the assets and liabilities would make the financial statements unduly lengthy and to a certain extent cumbersome. It is suggested to disclose the information if applicable in the form of notes to the financial statements.

14 Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

Yes.

15 Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We do not see the information of any real value-added or decision-useful as stated. As long as the core and non-core business activities have been explained clearly under the various sections in the financial statement, further disaggregation of other comprehensive income would incur costs with additional benefits.

16 Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity’s future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

We consider that the reportable segments would serve the purpose and provide would decision-useful information as to the function and nature of the different business activities. No further disaggregation would be necessary in the interest of consistency and integrity.

17 Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

We consider income taxes should not be allocated and should be kept separate from the core-business activities to keep things simple and easier to comprehend.

18 Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components

of any net gain or loss arising on re-measurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

We would suggest not to present foreign currency transaction gains and losses including the components of any net gain or loss arising on re-measurement into its functional currency in the same section and category as the assets and liabilities that gave rise to the gains or losses, unless the gains or losses are material. We argue that in the absence of major movements in the foreign currencies vis-à-vis the functional currency, the extra work and hence costs involved to reflect the foreign currency transaction gains or losses as described outweigh the benefits.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

The costs related to changes to be made to the accounting system in order to capture the required data, the cost of preparing the information, related reconciliation and the additional audit fees that would be required.

19 Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

We concur that the direct method of presenting cash flows is more decision-useful. Users and potential investors would be able to understand the cash flow better and hence their ability to predict the future cash flow is improved.

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

We are more concerned with the decision-usefulness of the

information based on direct method, although technically speaking, it is not as obvious as the indirect method which on face of appears more consistent in terms of format and presentation of the information and the ease of reconciliation.

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

This would not be necessary if the direct method is adopted.

20 What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

One time implementation cost – change to the accounting system and procedures

One-off cost – training to be provided to the staff

On going costs – increased time cost for the accountants and external auditors

21 On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

We consider that any allocation of the effects of basket transactions would tend to be arbitrary and does not provide decision-useful information. We would propose to show a separate item in “other comprehensive income” for this purpose.

22 Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this

information? Why or why not?

We consider that information about maturities of such short-term contractual assets and liabilities is decision-useful and should be provided.

23 Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

No. There is no additional benefit for the extra cost incurred.

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

No. There is no additional benefit for the extra cost incurred.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

No. There is no additional benefit for the extra cost incurred.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

N/A due to the above response.

24 Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

We consider that here is no additional benefit for the extra cost incurred unless the changes in fair value in future projects are material.

25 Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

No comment.

26 The FASB’s preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users’ attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

No this information may not necessarily be decision-useful to users. Instead, there is a danger of information over-load in an already quite sophisticated reporting environment.

(b) APB Opinion No. 30 *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

Same comments as 26(a).

(c) Should an entity have the option of presenting the information in narrative format only?

Same comments as 26(a).

Question specific to the FASB

27 As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

We consider that non-profit organizations have rather different reporting objectives and should not be included in this exercise. They should be dealt with separately.