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By email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Hoogervorst

**IASB ED/2015/3 Exposure Draft on Conceptual Framework for Financial Reporting and ED/2015/4 Updating References to the Conceptual Framework**

We refer to the International Accounting Standards Board's ED/2015/3 Exposure Draft on Conceptual Framework for Financial Reporting and ED/2015/4 Updating References to the Conceptual Framework. Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact Ms. Emily Ngan of the Secretariat at 2526 6080.

Yours sincerely

Henry Chan  
Secretary

Enc.

c.c. Ms. Christina Ng, Head of Financial Reporting, Standard Setting,  
Hong Kong Institute of Certified Public Accountants

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## Annex

### Exposure Draft ED/2015/3

### Conceptual Framework for Financial Reporting

#### Question 1 – Proposed changes to Chapters 1 and 2

Do you support the proposals:

- (a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;
- (b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgments under conditions of uncertainty) and to state that prudence is important in achieving neutrality;
- (c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;
- (d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and
- (e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

(a) We agree with giving greater prominence to stewardship as one of the objectives of financial reporting. As most general purpose financial statements are issued some time after the end of the reporting period, they need to provide users with information that enables them to assess how management have discharged their responsibilities in relation to the entity’s resources.

(b) We agree with the IASB’s re-introduction of prudence into the Conceptual Framework. Although paragraph 2.18 states that “neutrality is supported by the exercise of prudence” it is not clear how this works where neutrality might indicate one answer, but prudence, or caution might indicate another. We consider that the interaction of neutrality and prudence requires more discussion in the Conceptual Framework. We would also request that as the definition of prudence has changed somewhat from the pre-2010 version, the current definition could be discussed at greater length to avoid any confusion.

(c) We agree.

(d) We do not agree that measurement uncertainty should be an element of relevance only. We believe that measurement uncertainty can also be a factor in faithful representation. If measurement of an asset or liability is very uncertain, then this could have an impact on the assessment as to whether the financial statements are free from error, and whether the item in question is verifiable. We suggest that the IASB consider adding an “Appendix B” to the Conceptual Framework to include additional discussion of potential trade-offs between measurement uncertainty and relevance as well as faithful representation, and other issues (such as the issues around prudence and neutrality referred to above).

(e) We agree.

**Question 2 – Description and boundary of a reporting entity**

Do you agree with:

- (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and
- (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

(a) We agree with the description of a reporting entity.

(b) In general, we agree with the discussion of the boundary of a reporting entity. In particular, for intermediate holding companies, sometimes unconsolidated financial statements may satisfy the objectives of financial reporting. It may also be helpful to consider giving an example of situations where combined financial statements as described in paragraph 3.17 may satisfy the objectives of financial reporting.

### **Question 3 – Definitions of elements**

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

- (a) an asset, and the related definition of an economic resource;
- (b) a liability;
- (c) equity;
- (d) income; and
- (e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

We agree with the proposals.

### **Question 4 – Present obligation**

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

We generally agree with the descriptions. If the proposed project on IAS 37 should result in different guidance on present obligations (particularly in relation to constructive obligations), then presumably this part of the Conceptual Framework would be updated.

### **Question 5 – Other guidance on the elements**

Do you have any comments on the proposed guidance?

Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

We believe the current wording could be construed as requiring the recognition of executory contracts where this is not currently the case. This would be problematic for many reporting entities. If this is the IASB's intention, we believe it should be the subject of a standards-level project.

**Question 6 – Recognition criteria**

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the Exposure Draft that relevance, faithful representation and cost benefit analysis should be considered when making recognition decisions. However, we think that existing uncertainty and measurement uncertainty should be discussed further in respect of their relevance to the recognition criteria.

**Question 7 – Derecognition**

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

Yes, we generally support the proposed discussion of derecognition and appreciate that a section of “Modification of contracts” is added [paragraphs 5.33 – 5.36] to provide guidance on how modifications of contracts would affect decisions about derecognition. Further discussion of thresholds and perhaps, the inclusion of specific examples would be helpful.

**Question 8 – Measurement bases**

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

The measurement bases have been correctly identified and described in the Conceptual Framework with clear descriptions and sufficient examples provided in the Exposure Draft.

**Question 9 – Factors to consider when selecting a measurement basis**

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

We consider that all the important factors to consider when selecting a measurement basis have been correctly identified and the Exposure Draft also provides some guidance on which measurement basis to be used in different circumstances. However, as mentioned in paragraph 6.48 of the Exposure Draft, the relative importance of each of the factors will depend upon facts and circumstances. Some additional discussion of examples would be helpful.

**Question 10 – More than one relevant measurement basis**

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

Yes, we broadly agree with the approach discussed in the Exposure Draft that sometimes more than one measurement basis is needed to provide relevant information especially when there is uncertainty about how an asset will contribute to future cash flows. However, we suggest including some examples for illustration.

**Question 11 – Objective and scope of financial statements and communication**

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We generally agree with the discussion of the objective and scope of financial statements and on the use of presentation and disclosure as communication tools. We are looking forward to some additional guidance to support the application of these presentation and disclosure concepts after the Board has completed the Disclosure Initiative projects.

**Question 12 – Description of the statement of profit or loss**

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

We support the description of the statement of profit or loss as proposed. Conceptual Framework currently merely states that it is a rebuttable presumption (as per Question 14). We would like to receive further guidance on the principles that distinguish income and expense recognised as profit or loss from that which is recognised in OCI.

**Question 13 – Reporting items of income or expenses in other comprehensive income**

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

We generally agree with the proposals on the use of Other Comprehensive Income and think that they provide useful guidance. Having said that, we consider that the Conceptual Framework should be clearer on, and devote more discussion to, the principles underlying the use of OCI.

**Question 14 – Recycling**

Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

If the rebuttable presumption is included in the Conceptual Framework, we would recommend including more specific guidance on circumstances where the presumption would be rebutted.

**Question 15 – Effects of the proposed changes to the Conceptual Framework**

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

Yes, these analyses enable us to better understand the implications of the proposed changes. Despite some inconsistencies that cannot be resolved at this moment, the Exposure Draft has stated clearly when and what actions IASB will take to tackle the inconsistencies.

**Question 16 – Business activities**

Do you agree with the proposed approach to business activities? Why or why not?

We agree with the proposed approach because, unless it is clearly defined at a standards level (for example IFRS 9), the term “business model” is capable of widely differing interpretations.

**Question 17 – Long-term investment**

Do you agree with the IASB’s conclusions on long-term investment? Why or why not?

Agree.

**Question 18 – Other comments**

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

No additional comments.



## **Exposure Draft ED/2015/4**

### **Updating References to the Conceptual Framework**

#### **Question 1 – Replacing references to the Conceptual Framework**

The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective.

Do you agree with the proposed amendments? Why or why not?

We broadly agree with the proposed amendments to these financial reporting standards.

#### **Question 2 – Effective date and transition**

The IASB proposes that:

- (a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted.
- (b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.

Do you agree with the proposed transition provisions and effective date? Why or why not?

Agree.

#### **Question 3 – Other comments**

Do you have any other comments on the proposals?

No further comments.