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**From:** ComMem-WONG Shing Hei

**Sent:** Friday, February 20, 2009 2:37 PM

**To:** P.T. Comment Letter

**Cc:** Council-LI Kwok Tso; ComMem-WONG CHUI Yue Chue Lesley; KM LEE; Shirley FY LAU; stafr@try.gov.hk

**Subject:** Comments on IASB Discussion Paper on Preliminary Views on Financial Statement Presentation

Steve Ong  
Director, Standard Setting  
Hong Kong Institute of Certified Public Accountants  
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213 Queen's Road East  
Wanchai, Hong Kong

20 February 2009

Dear Steve,

### **Invitation to Comment on IASB Discussion Paper on Financial Statement Presentation**

In response to the above Discussion Paper issued by the IASB, the Treasury of the Hong Kong Special Administrative Region Government would like to provide comments in the ensuing paragraphs.

#### **General Comments**

(a) We support the cohesiveness objective which would facilitate users to understand the financial statements. However, the disaggregation objective would need to be balanced against providing too detailed information. While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users may find such information excessive and even confusing;

(b) The proposals will bring about substantial changes to the classification of accounts, thereby necessitating changes to the chart of accounts and the accounting systems of the affected entities. There are thus potentially significant costs in implementing the changes which should be assessed against the expected benefits, in light of feedback from preparers of financial statements. A sufficiently long transitional period should also be allowed for entities to fully comply with the proposed models;

(c) The adoption of a management approach to classification would undermine the comparability of the financial statements among entities. The classification is subject to

management's interpretation which would vary from entity to entity, and even from segment to segment within the same entity. Consideration should be given to developing a standardised format or providing guidance on classification; and

### **Responses to Questions**

(d) Our responses to the individual questions in the discussion paper are in the file attached.

Yours sincerely,

Charlix Wong  
Chief Treasury Accountant  
for Director of Accounting Services

# **Discussion Paper on Preliminary Views on Financial Statement Presentation**

## **Chapter 2: Objective and principles of financial statement presentation**

### **Question 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 support the cohesiveness objective which requires that the relationship between items across financial statements is clear and that an entity’s financial statements complement each other as much as possible. This would facilitate users to understand the financial statements and improve the usefulness of the information provided. However, we consider that the disaggregation objective would need to be balanced against having too much information on the face of the financial statements. While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users of the financial statements may find such information excessive and even confusing.

### **Question 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?**

Agree. It would facilitate users of the financial statements to distinguish the profits received from the business activities as opposed to the costs of financing the business.

### **Question 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?**

Agree. Equity should be presented as a separate section since shareholders are the primary users of financial statements.

#### **Question 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?**

Agree. Presenting an entity's discontinued operations in a separate section would provide decision-useful information as it would facilitate users to look at the operating effectiveness and earning quality of the entity's continuing activities in making decisions.

#### **Question 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?**
- (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?**

The adoption of a management approach to classification used in the proposed presentation models would undermine the comparability of the financial statements among entities. The classification is subject to management's interpretation which would vary from entity to entity, and the same item could be classified differently in the various reportable segments within the same entity. Consideration should be given to developing a standardised format or providing guidance on classification.

### **Question 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?**

Agree. In theory, this would make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities.

### **Question 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.**

Classifying assets and liabilities at the reportable segment instead of the entity level would make the proposed financial statement models very lengthy and complicated. It may also involve arbitrary apportionment of assets and liabilities among segments which could be confusing or misleading.

### **Question 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.**

The existing aggregation criteria and quantitative threshold stipulated in IFRS 8 Operating Segment would need to be revisited and adjusted if necessary.

**Question 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?**

Agree in principle. However, it is possible that there are areas where the distinction between the operating and investing categories cannot be discreetly defined.

**Question 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?**

Agree. The definitions are appropriate and the financing section should be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed.

### **Chapter 3: Implications of the objectives and principles for each financial statement**

#### **Question 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?**
- (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 comment.

#### **Question 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?**

Agree. Cash equivalents are not synonymous with cash since they do not share the same characteristics with cash. The value of cash equivalents could be highly volatile in some extraordinary economic environment such as credit crisis. The proposal would facilitate users to focus on cash to assess the entity's liquidity and ability to generate future cash flow.

#### **Question 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 do not consider that presenting assets/liabilities that are measured on different bases on separate lines in the statement of financial position would provide information that is more decision-useful. This could be dealt with in a note if considered necessary.

#### **Question 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?**

Agree. It would enhance the comparability of financial statements of different entities by presenting their comprehensive income and its components in a similar format and manner.

#### **Question 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?**

Agree. It would facilitate the attainment of the cohesiveness objective.

#### **Question 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?**

As stated in the response to Question 1, we consider that the disaggregation objective would need to be balanced against having too much information on the face of the financial statements. While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users of the financial statements may find such information excessive and even confusing.

#### **Question 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 agree with the proposed classification requirements of income taxes.



### Question 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 remeasurement 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.
- (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?

Agree in principle. This could facilitate the attainment of the cohesiveness objective.

### Question 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?
- (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?

Agree. The direct method is considered more user-friendly.

- (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?

While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users of the financial statements may find such information excessive and even confusing.

**Question 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?**

The proposals in the discussion paper, if adopted, will bring about substantial changes to the classification of assets, liabilities, income, expenditure and equity as well as segment disclosure in the financial statements. These will necessitate corresponding changes to the chart of accounts and the accounting systems of the affected entities. There are thus potentially significant costs in presenting the information as required in the proposed models.

**Question 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?**

No comment.

## **Chapter 4: Notes to financial statements**

### **Question 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?**

Agree. Disclosure of the maturities of an entity's short-term contractual assets and liabilities would facilitate users to assess the expected future cash flows and whether the entity's short-term liquidity mismatches. However, whether or not all entities should present this information should depend on the materiality of the items involved.

### **Question 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.**

**(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.**

**(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.**

**(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.**

As stated in the response to Question 1, we consider that the disaggregation objective would need to be balanced against having too much information on the face of the financial statements. While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users of the financial statements may find such information excessive and even confusing.

### **Question 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?**

No comments.

#### **Question 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?**

As stated in the response to Question 1, we consider that the disaggregation objective would need to be balanced against having too much information on the face of the financial statements. While trained accountants and financial analysts may find the detailed breakdown and reconciliation schedules useful, general users of the financial statements may find such information excessive and even confusing.

#### **Question 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?**

**(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?**

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

Please see our response to Question 25 above.

#### **Question specific to the FASB**

#### **Question 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.**

No comment.