Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

By e-mail CommentLetters@iasb.org and by post

27 July 2006

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

Dear Sirs,

Comments on IASB Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements*

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the appendix for your consideration.

In general, we do not support proceeding with the Exposure Draft. We consider that the issues addressed in the Exposure Draft are not sufficiently important to require action before the proposals in Segment B of project are exposed. We would prefer that the IASB devote its resources to Segment B and address both Segment A and Segment B at the same time. In particular, we anticipate that Segment B will result in more fundamental changes to IAS 1 *Presentation of Financial Statements* and, as a consequence, will have a significant impact on the proposals under the Exposure Draft.

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

Yours sincerely,

Patricia McBride
Director, Standard Setting

PM/EH/al

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APPENDIX

Hong Kong Institute of CPAs

Responses to the questions raised
in the IASB Exposure Draft of Proposed Amendments to
IAS 1 *Presentation of Financial Statements*

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

(a) statement of financial position (previously "balance sheet");

(b) statement of recognised income and expense;

(c) statement of changes in equity; and

(d) statement of cash flows (previously "cash flow statement").

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 - Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

We see little point in changing the titles of the income statement, balance sheet and cash flow statement in standards and interpretations, given that the changes are not proposed to be mandatory for use in published financial reports. The existing titles have been established and used for a long time and many laws and regulations contain references to those titles. As a result, entities might be reluctant to use or even prevented from using the new titles even if the IASB decides to proceed with the proposal. There seems little point in changing the technical language in IFRSs from the language in common use when there is no conceptual problem with the existing language.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6 – BC9 of the Basis for Conclusions).

Question 2 - Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Although we note the rationale for this proposal, we do not agree that a statement of financial position as at the beginning of the period should be a necessary part of a complete set of financial statements. We believe that financial statements users are used to having only two balance sheets presented

and we are not aware of any market needs for a third balance sheet to be presented. Users are able to refer to the opening balances of the comparative year by referring to the previous year's financial statements.

Questions 3 - 5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (i.e. "owner changes in equity") separately from other changes in equity (i.e. "non-owner changes in equity" or "recognised income and expense"). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11 – BC20 of the Basis for Conclusions).

Question 3 - Do you agree that non-owner changes in equity should be referred to as "recognised income and expense" (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why? Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of "recognised income and expense"?

We do not object to the use of the term "recognised income and expense" but we are doubtful that the word "recognised" is required (we never refer to "recognised" assets and liabilities). We consider this term is a better term than "non-owner changes in equity", in particular the terms "owner" and "non-owner" are not well defined under current Standards. However, we believe that, as long as the requirements for this statement are clearly spelled out and the title is not misleading, the IASB should not be too concerned about how this statement can be described.

Question 4 - Do you agree that all non-owner changes in equity (i.e. components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We agree that all non-owner changes in equity should be presented separately from owner changes in equity. However, along with this requirement, we believe "owner" and "non-owner" need to be clearly defined.

Question 5 - Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

Given that the IASB has yet to deal with the more fundamental issues about the distinction between "profits", "gains and losses" and "other income and expenses", we agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements at this stage. Without the guidance on those fundamental issues, we

consider that the distinction between a single statement and two statements is purely a matter of page break.

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92-96 of the draft Standard and paragraphs BC21-BC23 of the Basis for Conclusions).

Question 6 - Do you agree with this proposal? If not, why?

We agree with this proposal. We consider disclosure of reclassification adjustments relating to each component of other recognised income and expense is essential to an understanding of the financial statements. In particular, in some cases, the treatments for similar items under different Standards are not consistent (e.g. IAS 21 requires recycling on disposal whilst IAS 16 prohibits recycling on disposal).

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 - Do you agree with this proposal? If not, why?

We see benefits in disclosing income tax relating to each component of other recognised income and expense as items recognised in other income and expense might be subjected to tax rates that are significantly different from those applied to profit and loss. Despite the above, we do not consider it appropriate to require such a disclosure to be made until there is further guidance on estimating the tax effect relating to an item recognised in other income and expense for the purpose of this disclosure if the tax on that item is not determined on a basis separately from the tax on the items in the income statement. However, we would not object if the IASB decides to encourage such disclosure to be made in the notes at this stage.

Question 8 - Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 - Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

We would like the IASB to consider the issue of per-share disclosures at some time in the future. It would seem sensible to permit or require per-share measures such as earnings per share and dividends per share to be disclosed in the same location. However, before IAS 33 is revisited, we agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense as this would ensure a consistent practice to be adopted by all entities.