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**From:** P.T. Comment Letter  
**Sent:** Friday, June 19, 2020 3:39 PM  
**To:** Katherine Leung (SS)  
**Subject:** FW: IASB Consultation on Exposure Draft on General Presentation and Disclosures  
**Attachments:** HKAB Submission - 20200522.pdf

**From:** info <[info@hkab.org.hk](mailto:info@hkab.org.hk)>  
**Sent:** Friday, May 22, 2020 9:38 AM  
**To:** P.T. Comment Letter <[commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk)>  
**Subject:** IASB Consultation on Exposure Draft on General Presentation and Disclosures

Dear Christina

Thank you for inviting our comments on the IASB Exposure Draft on General Presentation and Disclosures. Our comments on the captioned topic are set out in the enclosed annex for your consideration.

If you have any questions, please contact our Deputy Senior Manager, Ms. Emily Ngan (email: [emilyngan@hkab.org.hk](mailto:emilyngan@hkab.org.hk) / tel: 2526 6080) or our Senior Business Executive, Mr. Kyle Si (email: [kylesi@hkab.org.hk](mailto:kylesi@hkab.org.hk) / tel: 2567 1780).

Regards

Celia Shing  
Secretary

Enc.

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## HKAB’s Comments on IASB Exposure Draft on General Presentation and Disclosures

No	IASB Question	HKAB Comments / Feedback
<i>Structure of the statement of profit or loss</i>		
1.	<p><b>Question 1—operating profit or loss</b></p> <p>Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.</p> <p>Paragraph BC53 of the Basis for Conclusions describes the Board’s reasons for this proposal.</p> <p>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposal. It facilitates alignment of varied presentation practices among entities and improve comparability of this key information in the statement.</p>
2.	<p><b>Question 2—the operating category</b></p> <p>Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.</p> <p>Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board’s reasons for this proposal.</p> <p>Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why? Do you agree with the proposed amendments? Why or why not?</p>	<p>We agree with the proposal on defining the classification of the operating category. Nonetheless, we suggest the IASB to provide explicit definition of “main business activities”, especially in cases where the entity provides financing to customers as a main business activity.</p> <p>Furthermore, according to paragraph B33, income and expenses from property, plant and equipment including disposal gain or losses should be included in operating category. These may confuse readers of the financial statements since under IAS 7 – Statement of Cash Flows, disposal gain or losses from property and equipment is classified as investing activities in the statement of cash flows. We suggest that IASB consider altering the category names (i.e. operating, investing and financing) in the statement of profit or loss to distinguish those from the statement of cash flows.</p>

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3.	<p><b>Question 3—the operating category: income and expenses from investments made in the course of an entity’s main business activities</b></p> <p>Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity’s main business activities.</p> <p>Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board’s reasons for this proposal.</p> <p>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposal that an entity classifies in the operating category income and expenses from investments made in the course of the entity’s main business activities. This could align the different practices of presenting operating income and provide useful information for entities.</p>
4.	<p><b>Question 4—the operating category: an entity that provides financing to customers as a main business activity</b></p> <p>Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:</p> <ul style="list-style-type: none"> <li>• income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or</li> <li>• all income and expenses from financing activities and all income and expenses from cash and cash equivalents.</li> </ul> <p>Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board’s reasons for the proposals.</p> <p>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposal to provide two accounting policy options for entities that provide financing to customers as their main business activities. Nonetheless, we disagree with the offering of free policy choice to these entities in paragraph 51. We consider that entities should be enforced to adopt a policy that is appropriate to their business models. To illustrate, for an entity with multiple main business activities of which financing customers is one of those activities, the policy specified in paragraph 51(a) should be adopted to ensure those income and expenses arising from financing customers are classified in the operating category; whereas for an entity with financing customers as its sole main business activity, the policy described in either paragraph 51(a) or 51(b) may be adopted.</p> <p>Alternatively, in case the free policy choice is offered, we suggest IASB to consider requiring entities to disclose the choice they made and the income and expenses amounts concerned.</p> <p>Furthermore, we would like to seek clarifications how the financing and investing category should apply to banks with financing and investing activities being part of its main business. Adopting the policy specified in paragraph</p>

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		51(a) might result in reporting immaterial balances, such as net interest in pensions to be recorded in ‘financing’, whereas the majority of finance-related income and expenses would be classified as ‘operating’ for a bank.
5.	<p><b>Question 5—the investing category</b></p> <p>Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity’s main business activities.</p> <p>Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board’s reasons for the proposal.</p> <p>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?</p>	We agree with the proposal. The investing category is useful for understanding the performance of entities that are not financial institutions. We suggest the IASB to provide additional guidance on determining returns generated “individually and largely independently of other resources held” to promote consistency.
6.	<p><b>Question 6—profit or loss before financing and income tax and the financing category</b></p> <p>(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.</p> <p>(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.</p> <p>Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board’s reasons for the proposals.</p>	We agree with the proposals. This can provide a clear picture to readers the financial performance of the entities under its main operation, investing activities and differentiate the result from these categories with financing category and enhance comparability. We suggest the IASB to provide further guidance on the classification of items involving unwinding of liabilities arising from different activities (e.g. insurance / lease / financial instruments) according to paragraph 49(c) and B37.

No	IASB Question	HKAB Comments / Feedback
	Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?	
<b><i>Integral and non-integral associates and joint ventures</i></b>		
7.	<p><b>Question 7—integral and non-integral associates and joint ventures</b></p> <p>(a) The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them.</p> <p>(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.</p> <p>(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.</p> <p>Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board.</p> <p>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We question the usefulness of the distinction between ‘integral’ and ‘non-integral’ associates and joint venture and the associated changes in the presentation of the statement of profit or loss as well as the disclosure of information about these two categories:</p> <p>(i) the cost, complexity and potential inconsistencies of distinguishing ‘integral’ and ‘non-integral’ associates and joint ventures may outweigh its value brought to financial statement users given there are already requirements under IAS 24 and IFRS 12 to disclose material related party relationships and significant associates and joint ventures respectively;</p> <p>(ii) the proposed definition of ‘integral’ and ‘non-integral’ associates and joint ventures provided in proposed paragraph 20 of IFRS 12 is considered inadequate for financial statement preparers. No illustrative examples on the classification between them, as well as relevant disclosures are provided; and</p> <p>(iii) given the fact that not all entities have integral associates and joint ventures, the additional sub-totals in the statement of profit or loss may introduce potential inconsistencies and unnecessary complexity.</p>

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<b><i>Roles of financial statements, aggregation and disaggregation</i></b>		
8.	<p><b>Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation</b></p> <p>(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.</p> <p>(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.</p> <p>Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board’s reasons for these proposals.</p> <p>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposals to set out the roles of primary financial statements and the principles and general requirements on the aggregation and disaggregation of information which could provide a clearer picture to readers and acknowledge them if any unusual items or significant items which require to draw their attention. We suggest IASB to provide further guidance on the interactions between minimum line items required, materiality, aggregation and disaggregation.</p>
9.	<p><b>Question 9—analysis of operating expenses</b></p> <p>Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.</p> <p>Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board’s reasons for the proposals.</p>	<p>We agree with the proposals. Nonetheless, we would like to seek for further guidance on distinguishing the nature of expense and function of expense methods which could also help eliminate current confusion over the distinction between these two methods.</p>

No	IASB Question	HKAB Comments / Feedback
	Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?	
10.	<p><b>Question 10—unusual income and expenses</b></p> <p>(a) Paragraph 100 of the Exposure Draft introduces a definition of ‘unusual income and expenses’.</p> <p>(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.</p> <p>(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.</p> <p>(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.</p> <p>Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.</p> <p>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We consider that ‘unusual income and expenses’ should not be defined in IFRS due to the following reasons:</p> <ul style="list-style-type: none"> <li>- It is difficult for entities to clearly define unusual or infrequently occurring items, hence judgment and interpretation are required. This may lead to inconsistencies and greater comparability across entities cannot be achieved;</li> <li>- Other accounting requirements with similar purposes exist already, for example, IAS 1.17(c) and IFRS 8 which require reconciliation between reported statutory results and the segment results as presented to the chief operating decision maker; and</li> <li>- Other means of disclosing such information could be considered, for example, by management performance measures and narratives.</li> </ul> <p>In addition, the current definition of unusual item only covers items with limited predictive value (i.e. not expected to occur again in at least a few accounting periods ahead). We would like to clarify if unusual items which may continue for more than one accounting period (e.g. restructuring) could be regarded as unusual item as well.</p>
<b><i>Management performance measures</i></b>		
11.	<p><b>Question 11—management performance measures</b></p> <p>(a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.</p>	<p>We agree in principle with the proposal to include management performance measures in the financial statements and the proposed disclosure requirements, which will be useful for all users including those who previously have no knowledge on how to derive those measures.</p>

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	<p>(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.</p> <p>(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.</p> <p>Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.</p> <p>Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?</p> <p>Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?</p>	<p>However, we would like the IASB to confirm whether it intends to implement these disclosures as voluntary requirements for (1) authorized institutions which have already made other extensive regulatory disclosures reflecting various aspects of their performance and such regulatory disclosures are published concurrently with the financial statements, or (2) unlisted entities which the cost of preparing these additional disclosure may exceed its benefit.</p> <p>When adopting the above requirements, we suggest that the IASB should also consider the following:</p> <ul style="list-style-type: none"> <li>- provide a list of items to be disclosed in the management performance measures to promote consistencies among entities;</li> <li>- consider other commonly used performance measures (e.g. ratios) other than sub-totals only.</li> </ul>
<b><i>EBITDA</i></b>		
12.	<p><b>Question 12—EBITDA</b></p> <p>Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.</p> <p>Do you agree? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposal since it could reduce diversity in practice.</p>



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<i>Statement of cash flows</i>		
13.	<p><b>Question 13—statement of cash flows</b></p> <p>(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.</p> <p>(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.</p> <p>Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board’s reasons for the proposals and discusses approaches that were considered but rejected by the Board.</p> <p>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?</p>	<p>We agree with the proposals as this align with the proposed revised presentation of statement of financial performance. We suggest the IASB to clarify whether the classification of all interest and dividend cash flows should be in line with the entity’s choice made for the compilation of the Statement of profit or loss in accordance with paragraph 51 of the Exposure Draft, and update relevant examples upon clarification.</p>
<i>Other Comments</i>		
14.	<p><b>Question 14—other comments</b></p> <p>Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?</p>	<p>(a) Foreign exchange differences</p> <p>Paragraph 56 and B39 of the Exposure Draft proposed that foreign exchange differences included in profit or loss should be classified consistently with the category of the income or expense that give rise to the difference. This proposal would require significant and complicated changes to accounting system to allocate foreign exchange differences based on the originating activity for which it arises. However, foreign exchange could be managed centrally even though the foreign exchange exposure could be arising from various types of activities. Presenting all foreign exchange differences in an aggregated total might be equally</p>

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		<p>relevant. We suggest the IASB to revisit the cost and benefit of the proposal and whether it should be pursued.</p> <p>(b) Derivative and hedging instruments</p> <p>Paragraphs 57 and 58 of the Exposure Draft proposed that derivatives used to manage risk but are not designated as hedges for accounting purposes should follow the same presentation approach as hedging derivatives. This implies an introduction of a new category of “hedging” which would be a complication to the existing hedge accounting framework and could also results in inconsistency in application and interpretation. We suggest the IASB to reconsider the cost and benefit of the proposal and whether it should be pursued.</p>