



TechWatch 72

The latest standards and technical developments

► Financial reporting

Exposure draft of proposed amendments to IAS 33 – *Simplifying Earnings per Share*

The Institute has issued an invitation to comment on this ED by 10 November 2008.

The IASB and the FASB are working on a joint project to converge the guidance on earnings per share (EPS). The proposed amendments will simplify the calculations of EPS and increase transparency for users of financial statements. In particular, the proposed changes aim to:

- Provide a clear principle to determine which shares and other instruments should be included in the EPS calculations.

- Clarify the EPS calculation for particular instruments such as contracts to sell or repurchase an entity's own shares and participating instruments.
- Simplify the EPS calculation for instruments that are accounted for at fair value through profit or loss.

Institute comments on IASB exposure draft and discussion papers

i. ED of An Improved Conceptual Framework for Financial Reporting – Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

The exposure draft proposes that the objective of financial reporting is to

provide financial information that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Financial reports should communicate information about an entity's economic resources, claims on those resources, and the transactions and other events and circumstances that change them. It also presents an improved description of "faithful representation," one of the fundamental qualitative characteristics that financial information should possess if it is to provide a useful basis for economic decisions.

The Institute's submission generally supports the IASB's view on the objective of general purpose financial reporting and qualitative characteristics

of decision-useful financial reporting information. The submission, however, expresses some concerns on the authoritative status of the conceptual framework, as well as the lack of priority that this project is being given as compared to other projects on the IASB's active agenda.

A complete and comprehensive conceptual framework is the cornerstone of any consistent and coherent principles-based accounting regime, and should be staffed and prioritized to reflect that importance. In addition, it regards "understability" to be a very essential characteristic and should be elevated from an enhancing qualitative characteristic to a fundamental qualitative characteristic.

ii. Discussion paper on *Financial Instruments with Characteristics of Equity*

The discussion paper is the first stage of the IASB's project to improve the equity versus liability classification in IAS 32 *Financial Instruments: Presentation*. It comprises an FASB preliminary views document, *Financial Instruments with Characteristics of Equity*, issued in November 2007. This document describes three approaches to distinguish equity instruments and non-equity instruments – basic ownership, ownership-settlement and reassessed expected outcomes. The IASB has yet to decide whether the three approaches are a suitable starting point for its project.

The Institute's submission does not support the three approaches set out in the FASB preliminary views document. Although the Institute recognizes that there are shortcomings in the existing IAS 32, it is of the opinion that the standard is operational in the majority of circumstances and is well understood by users and preparers. It recommends the IASB to work on

improving the existing standard, rather than considering a fundamentally new approach to the classification of financial liabilities and equity instruments.

iii. Discussion paper on *Reducing Complexity in Reporting Financial Instruments*

This discussion paper argues that the existing accounting requirements for financial instruments are too complex and need to be simplified. It identifies measurement and hedge accounting as areas that seem to be significant causes of the complexity and suggests that one approach to simplify the requirements is to reduce the number of categories of financial instruments and ways of measuring financial instruments. From that, it concludes that the long-term objective should be to measure all financial instruments in fair value.

The Institute's submission agrees that some complexities in the current requirements are unnecessary and could be simplified. While the submission acknowledges that the mixed measurement attributes and hedge and accounting requirements are two sources of complexity in the current IAS 39, it does not believe that the only appropriate solution is to impose a single measurement attribute such that all financial instruments should be measured under fair value and remove hedge accounting all together. It would support some simplification of the requirements of IAS 39 as an evolutionary development in that standard.

► Ethics

Institute comments on IFAC IESBA re-exposure draft on *Internal Audit Services and Relative Size of Fees*

The Institute's submission to the International Ethics Standards Board

for Accountants on the re-exposure draft of section 290 of the Code of Ethics on Independence – *Audit and Review Engagements relating to Internal Audit Services and Relative Size of Fees* is supportive of the current work of the IESBA, which seeks to consider what revisions to auditor independence requirements might be needed given the changes in the environment over the past few years. It also recommends further guidance on certain terms for better clarity.

Other updates in TechWatch 72:

- The Companies Registry issues a sample of completed Form D2A – Notification of change of secretary and director (appointment/cessation) to assist companies and document presentors to complete the forms.
- Deloitte publishes a guide comparing IFRS and U.S. GAAP, and a report identifying top 10 issues of converting to IFRS in the insurance industry.
- KPMG publishes updates to HKFRS 3 *Business Combinations* and related amendments to HKAS 27 *Consolidated and Separate Financial Statements*; amendments to HKAS 32 and HKAS 1; and HK(IFRIC) 15 *Agreements for the Construction of Real Estate*.
- PwC publishes a practical guide to segment reporting, which provides an overview of the key requirements of IFRS 8 *Operating Segment* and some points to consider as entities prepare for the application of this standard for the first time, and Q&A on HKAS 23 (revised) *Borrowing Costs*.

🔗 Quick link

Please refer to the full version of TechWatch 72, available as a PDF on the Institute's website: www.hkicpa.org.hk/professionaltechnical/techwatch.