Comments on

Improvements to International Accounting Standards

By

China Accounting Standards Committee

15 September 2002

General Comments

IFRSs are benchmark for many countries during the process of international accounting convergence. We strongly suggest that IASB also need consider situations in countries which have not fully applied IFRSs in addition to needs of countries that have adopted IFRSs as mandatory requirements in order to speed up the process of international accounting convergence.

IAS1 Presentation Of Financial statement

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an international accounting reporting standards or an interpretation of an international financial reporting standard to achieve fair presentation?

We agree with it.
In order to achieve fair presentation, ED permits some departure from the requirement of certain international accounting reporting standards in the extremely rare circumstances. The problem is how to define "the extremely rare circumstances" or limit it in some areas? We propose to define it strictly , otherwise it would be an excuse for an entity intentionally not to follow IAS' requirements.

Question 2
Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statements and the notes?

We agree with it.
If IASB wish to keep extraordinary items on the face of income statements, the specific criteria of recognition of such items should be defined clearly.

Question 3
Do you agree that a long-term financial liability due to be settled within 12 months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorized for issue?

We agree with it.

Question 4
Do you agree that:
(a) A long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach?

We agree with it.

(b) If a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement of, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and the entity rectifies the breach within the period of grace; or when the financial statements are authorized for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

We agree with it.

Question 5

Do you agree that an entity should disclose the judgments made by management in applying the accounting polices that the most significant effect on the amounts of items recognized in the financial statements?

We agree with it.

Question 6

Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year?

We agree with it.

Undoubtedly, such disclosure will improve usefulness of the financial statements. It also follow the trend of improvements of financial reporting. However, more detailed implementation guidance should be provided if all entities are required to disclose such information.

IAS2 INVENTORY

Question 1
Do you agree with eliminating the allowed alternative of using the LIFO method for determining the cost of inventories under paragraphs 23 and 24 of IAS2?

We disagree with it.

We consider conservatism principle is more important.

Question 2
IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognized in profit or loss. Do you agree with retaining those requirements?

We agree with it.

IAS8 Accounting polices, Changes in Accounting Estimates and Errors

Question 1
Do you agree that the allowed alternative treatments should be eliminated for voluntary changes in accounting polices and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred?

We agree with it.

Alternative treatments allowed in current standard allow the amount of adjustment included in profit or loss for the current period. Such treatments could damage the comparability of information and result in fair presentation.

This ED requires adjustment made retrospectively and restatement of previous accounting statement, in order to provide more comparable information and result in fair presentation. ED introduces "UNDUE COST OR EFFORT" concept to allow exemption from restating previous accounting information in priors periods. We believe it could be a more particle method.

Question 2
Do you agree with eliminating the distinction between fundamental errors and other material errors?

We agree with it.

We support the idea that it is unnecessary to distinguish "fundamental errors" and "other material errors", and all errors should be adjusted retrospectively.

IAS10 Events After the Balance Sheet Date

Question
The main change proposed is to revise paragraphs 11 and 12 to indicate that if dividends are declared after the balance sheet date, an entity should not recognize those dividends as a liability at the balance sheet date.

We agree with it.

The dividends declared after the balance sheet date should not be recognized as a liability at balance sheet date. Simultaneously, we note some exceptions. In the constitutions of some companies, there are articles to make dividends payment according to the fixed ratio. Even if such dividends are actually declared after the balance sheet date, it is better to recognize the dividends as liability on balance sheet date.

IAS16 Property, Plant and Equipment

Question 1
Do you agree that all changes of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraph 21 and 21A)?

We agree with it.

Question 2
Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see the amendments in paragraphs 34-35B of IAS 38, proposed as a consequence of the proposal described in Q1)?

We agree with it.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

We agree with it.

Besides physical use to fixed assets, other factors, such as technical obsolescence, can also result in the diminution of the economic benefits from the assets. If the assets becomes temporarily idle or is retired from active use and held for disposal, the depreciation of those fixed assets should not cease.

IAS17 Leases

Question 1

Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10of IAS 17.

We agree with it.

Question 2

Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalized and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalized in this way and that they should include those internal costs that are incremental and directly attributable?

We disagree with it.

We do not believe initial direct costs meets the definition of asset.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Question 1
Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?

We agree with it.

Question 2
Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

We disagree with it.

Usually, reporting entity should present its financial statements in its functional currency except for the cases such as publishing financial statements to comply with requirements of overseas capital markets or local laws. Only in such cases, a reporting entity can be permitted to present its financial statements in any currency (or currencies). For the purpose of controlling and monitoring, the management should be permitted to prepare its financial statements in different currencies without any direct effects on the disclosure of its financial information. To help the users of the financial statements to understand the financial information, the financial information should be presented in its functional currency to keep consistent with the primary economic environment in which the entity operates.

Question 3
Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraph 37-40)?

We disagree with it.

Question 4

Do you agree that the allowed alternative to capitalize certain exchange differences in paragraph 21 of IAS 21 should be removed?

We disagree with removing the allowed alternatives.

In some countries, entities can not afford to manage their foreign currency risk due to local laws and regulations, or lack of efficient and effective market.

Question 5

Do you agree that

a) goodwill and

b) fair value adjustments to assets and liabilities

that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

We agree with it.
Goodwill, just like other assets generated from acquisition, should be translated at the closing rate.

IAS24 Related Party Disclosures

Question 1
Do you agree that the Standard should not require disclosure of management compensation, expenses allowances and similar items paid in the ordinary course of an entity's operation (see paragraph 2)?
'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

We disagree with it.

We propose that the items such as management compensation of related parties should be disclosed. The case of Enron has provided evidences for such disclosures. Enron's management obtained a lot of benefits by controlling the related parties. Generally speaking, because of the agency problem, it is likely that the level of management compensation and the mode of the payment will have an effect on the related party transaction.

'Management of related parties' can be defined from two points of view: (a) it can be defined as the key executive management of the related companies, e.g. directors, general manager, vice manager and chief financial managers; (b) it can be any person who does not hold an position in the related companies but has a controlling effect on the company. Compensation could be wages, bonuses, the number and value of the options, the interests that have been exercised during the current period, fringe (including commercial insurance), allowance paid in business trip and the expenses incurred during the serving period (including the usage of vehicles of the company, housing allowance and traveling allowance).

Question 2
Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

We disagree with it.

IAS27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Question 1
Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

We agree with it.

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity(see paragraph 26) ?

We agree with it.
Minority interests do not meet the definition of liability, while it meets the definition of equity (the residual equity after the liabilities are deducted from the total assets).

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

We disagree with it.

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

We disagree with it.

IAS 28 Accounting for Investments in Associates

Question 1

Do you agree that IAS 28 and IAS 31, Financial reporting of interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capitals, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

We agree with it.

The purpose of such entities to hold the investments is for resale rather than control them. So it is not reasonable for them to apply methods addressed in this standard.