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

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

15 January 2009

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

Dear Sirs,

IASB Exposure Draft of Proposed amendments to IFRS 7 *Investments in Debt Instruments*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome 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.

We appreciate the timely action taken by the IASB to respond to the global credit crisis. However, we are not supportive of the Exposure Draft for the following reasons:

- the Exposure Draft does not address the requests made at the roundtable discussions on the credit crisis for a review of the approach to determining and measuring impairment losses on available-for-sale (AFS) debt instruments; and

- in our view, the value to users of the proposed disclosure requirements would not justify the considerable cost to prepare the information.

We recommend that, in the meantime, the amendment to the Standard should be limited to requiring the disclosure of the credit-loss component of any impairment loss recognised for AFS debt instruments, in order to provide information to users which is relevant to the concerns expressed at the round tables. In the longer term, the IASB should add the revision of the recognition and measurement of impairment of AFS debt instruments to its agenda as a separate project.

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

Yours faithfully,

Steve Ong

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Hong Kong Institute of CPAs

Comments on the IASB Discussion Paper on Proposed amendments to IFRS7 *Investments in Debt Instruments*

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

We do not agree with the proposals. We understand that this Exposure Draft is developed in response to comments received from the three round-table discussions held in November and December 2008. As stated in BC2, some of the participants suggested disaggregating the impairment losses recognized on AFS debt instruments. We do not consider the proposed additional disclosures addresses this request, and instead may impose a significant burden on preparers.

We understand that the initial request originated from concern over the existence of different measurement models for impairment of financial assets and, in particular, the inconsistency within the AFS debt instrument impairment model between the impairment trigger event and the measurement basis. That is, under the AFS debt instrument impairment model the recognition of an impairment loss is triggered by a credit event, but the impairment loss is required to be measured as the entire change in fair value, including the impact of market forces on the fair value (e.g. changes in interest rate and credit spread) in addition to credit loss events.

To address this issue, we believe that the IASB should add the revision of the recognition and measurement requirements for the impairment of AFS debt instruments to its agenda as a separate project. In the meantime, the proposed amendment should be limited to requiring the disclosure of the credit-loss component of any impairment loss recognised for AFS debt instruments, in order to provide information to users which is relevant to the concerns expressed at the round tables.

We believe the additional disclosure requirement proposed in the Exposure Draft (i.e. the disclosure of profit and loss impact of *all* investments in debt instruments other than those classified as at FVTPL under two alternative classification assumptions) does not provide any additional decision-useful information for users. Further, the amount of work needed to provide the disclosures is significant, particularly if there have been additions and/or disposals of investments during the period (since such movements will complicate any back-of-the-envelope calculations using brought forward and carry forward aggregate amounts). For an entity with a large portfolio of debt instruments, e.g. an insurance company, this would essentially mean that systems would need to be able to track both amortised cost and fair value throughout the period.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.

Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

We are not supportive of the proposals for the same reasons as stated in our response to Question 1.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

We agree that the proposal of requiring entities to disclose a summary of the different measurement bases for all investments in debt instruments (other than those classified as at FVTPL) in a tabular form does provide greater clarity. However, we consider the information is of limited value since fair value is already shown for debt instruments measured at amortised cost. Furthermore, the proforma amortised cost information for AFS debt instruments could potentially be misleading, as the amount disclosed under the proposed paragraph 30A(b) of IFRS 7 would presumably be the amount calculated for each investment for the purposes of applying the effective interest method under paragraph 55(b) of IAS 39 and therefore may not be the same amount as would be stated if the entity had actually carried the portfolio of debt investments at amortised cost and therefore recognised a collective impairment allowance in accordance with paragraph 64 of IAS 39.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

We agree that the scope of these disclosures should not be extended to investments carried at FVTPL. As explained above in our response to Question 1, we have significant concerns about the information-usefulness and burden to the preparers of the proposals and we consider that extending the scope of the proposals to FVTPL investments would add an even greater burden of questionable value.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We are concerned at the proposal to make the additional disclosure requirements retroactively effective, since presumably the final amendments to IFRS 7 will not be published until late January (at the earliest), by which time some entities may have already authorised their 2008 financial statements for issue. In addition, as explained in our answer to question 1, we are concerned that some entities may not be able to produce the information required without considerable effort.

We therefore recommend that the effective date of the proposals, if introduced as proposed, should be deferred until 2009, with early adoption permitted. If the IASB decides to persist with the proposed 2008 effective date, then in our view, the effective date provisions of the amendments should clearly state that the amendments are not effective for financial statements for annual periods ending on or after 15 December 2008, when those financial statements were authorised for issue (as defined in IAS 10 *Events after the Reporting Period*) on or before the date of the issuance of the amendments, to prevent any confusion.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Should the IASB finalise the Exposure Draft, we would agree with the transition requirements which would not require comparative information in the period of initial application.

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