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ALL CORRESPONDENCE SHOULD BE ADDRESSED TO:—
COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

來函編號：
Your Ref.: C/FRSC

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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

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File No.:

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Dear Mr. Ong,

**Invitation to Comment on IASB Exposure Draft of
Financial Instruments: Amortised Cost and Impairment**

I refer to your letter dated 30 November 2009.

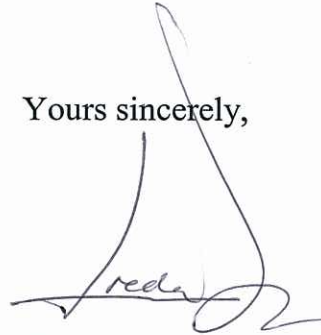
In addressing your invitation to comment on the IASB Request for Information ("*Expected Loss Model*") *Impairment of Financial Assets: Expected Cash Flow Approach*, we stated in our letter of 10 August 2009 that "we have concern about the expected loss model, which is not subject to 'incurred' trigger/threshold and seems to be more easily susceptible to judgment. Apart from the market discipline, we think sufficient safeguard or guidance should be in place so as to ensure that management expectations are reasonable and the expected loss model is sufficiently objective to represent the economics of income generated over the life of a financial asset."

As regards the proposed move from the current incurred loss model to expected loss model in the captioned Exposure Draft, our above concern and responses are still valid. Under the proposed model, complexity involved in forecasting the extent and timing of expected credit losses would make financial statements more easily susceptible to judgement changes, human errors or perhaps wilful manipulations on the part of company management. In this respect, we share to some extent with the alternative view as set out in pages 23 and 24 of the Basis for Conclusions. The expected loss model will exacerbate concern about earnings management because whether a loss is a reasonable expectation of the future as claimed by management is difficult to dispute in most practical circumstances. The results of applying the expected loss model will thus not be auditable and verifiable.

We broadly welcome the formation of the Expert Advisory Panel to address the operational challenges arising from the proposals in the Exposure Draft. However, we don't think sufficient safeguard and guidance against potential abuse or manipulation have now been put in place. Hence, we have, at least at this stage, reservation about the implementation of the expected loss model.

Nevertheless, any claims for tax deduction of the expected credit losses are subject to the "incurred" test, section 16(1)(d) requirements and other normal rules under sections 16 and 17 of the Inland Revenue Ordinance.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Freda", with a large, sweeping flourish extending upwards and to the right.

(Ms FONG Wai-hang, Freda)
for Commissioner of Inland Revenue