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29 October 2010

By email: [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) and post

Mr. Steve Ong, FCA, FCPA  
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**Exposure Draft of Hong Kong Interpretation 5 Presentation of Financial Statements  
Classification by the Borrower of a Term Loan that contains a Repayment on  
Demand Clause**

Dear Mr. Ong

We are pleased to submit our comments on the Hong Kong Institute of Certified Public Accountants (the "HKICPA") Exposure Draft of Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause (the "ED")*. The ED proposes that the classification of a term loan as a current or non-current liability in accordance with HKAS 1, *Presentation of Financial Statements ("HKAS 1")* shall be determined by reference to the rights and obligations of the lender and borrower, as contractually agreed between the parties and in force as of the reporting date. The probability of the lender exercising its rights is not relevant.

We agree with the conclusions of the HKICPA expressed in the ED. The classification of a liability as current or non-current should be based upon the contractual rights of the parties to the lending arrangement as of the reporting date rather than on an assessment of the probability of a lending arrangement being called due or terminated. Events during the financial crisis of 2008 and 2009 demonstrate that lending and liquidity can be withdrawn from borrowers and markets suddenly and with little advance warning. Users of financial statements will benefit from a balance sheet presentation based on the contractual lending arrangements to which a reporting entity has entered into rather than on management's assessment of the likelihood that a contractual provision will or will not be exercised.

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秘書 廖碧瑩

We believe that the position in the ED is also consistent with the basis for conclusions in HKAS 1 in regards to whether a liability that is refinanced on a long-term basis subsequent to the reporting date should be classified as current on the most recent balance sheet prior to refinancing. The IASB concluded that refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency at the balance sheet date, the reporting of which should reflect contractual arrangements in force on that date. The IASB was clearly concerned with conditions and contractual provisions that exist at the balance sheet date rather than expectations of events after the balance sheet date, even if those events have occurred prior to issuance of the financial statements.

We would be happy to further clarify or discuss any of the above points should you so wish.

Yours sincerely



Rita Liu  
Secretary