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Mr Steve Ong  
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Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor, Wu Chung House  
213 Queen's Road East  
Wanchai, Hong Kong

(Fax: 2865 6776)

Dear Mr Ong,

**Invitation to comment on  
IASB Supplement to Exposure Draft of Financial Instruments: Impairment**

Thank you for your letter of 1 February 2011 inviting the Audit Commission to comment on the captioned subject.

We agree that the proposed approach for recognition of impairment associated with financial assets as set out in the supplementary document would address the weakness of delayed recognition of credit losses under the current IFRSs and US GAAP. In our view, it is appropriate and useful to: (a) differentiate financial assets managed on an open portfolio basis into two groups (i.e. "good book" and "bad book") based on their credit characteristics; (b) for financial assets in the "good book", determine the impairment allowance on a time-proportional basis with a minimum not less than the expected credit losses for the foreseeable future (e.g. a minimum of twelve months); and (c) for financial assets in the "bad book", recognise the full amount of remaining lifetime expected credit losses as the impairment allowance.

Yours sincerely,

(Andrew Chang)  
for Director of Audit