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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

檔案號碼：HQ 502/141 Pt.14

File No.:

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Dear Mr. Ong,

**Re: Invitation to Comment on IASB / IFAC Consultation Documents**

I refer to your letters dated 1 February 2011 and 24 February 2011 inviting for comments.

**(I) IASB Supplement to Exposure Draft of Financial Instruments:  
Impairment**

The proposals in the Supplement apply to financial assets that are measured at amortised cost if they are managed in an open portfolio and excludes those short-term trade receivables without a stated interest rate and where discounting for the time value of money is immaterial. The Supplement retains the fundamental concept of impairment proposed in the original exposure draft (ED/2009/12) while addressing concerns of operational difficulties.

In response to your invitation to comment on the original exposure draft, my predecessor stated in her letter dated 3 June 2010 that she had concern over the move from incurred loss model to expected loss model, that the complexity and forecasting involved in the latter model would make financial statements more susceptible to judgement change, human errors or perhaps wilful manipulations on the part of company management. This concern is still valid.

As to the proposals in the Supplement, although it is prudent to recognise all the lifetime expected credit loss for the 'bad book' immediately, to adopt the

time-proportional approach for the 'good book' while ensuring that the impairment allowance is sufficient to cover the credit loss expected to occur in the foreseeable future (the 'floor'), I am a bit concerned that the estimation of lifetime expected credit loss, the estimation of the weighted average expected life of the portfolio, the expectations about the collectibility of the financial assets for differentiation into 'good book' or 'bad book', the transfer of assets between the two groups are all complicated and require exercise of judgement by management, which may reduce comparability of financial statements between companies and may provide opportunity to earnings management.

On the other hand, I support the proposed mandatory use of allowance account instead of direct write-off against the financial assets, and other proposed disclosures which are useful to users of the financial statements.

As to the questions raised in the Supplement, I do not have specific comments in so far as tax administration is concerned.

**(II) IFAC Policy Position Paper #4, A Public Interest Framework for the Accountancy Profession**

Whilst I have no specific comments to make from the tax perspective, I appreciate the issue of the principle-based and definitional public interest framework which is useful to the accounting profession and other organizations in their standard-setting, policy analysis and other decision making processes.

Yours sincerely,



(Mrs WU LAM Choi-wah)  
for Commissioner of Inland Revenue