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10 February 2011

Mr Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
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Wanchai, Hong Kong
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Dear Mr Ong,

**Invitation to comment on
IASB Exposure Draft of Hedge Accounting**

Thank you for your letter of 17 December 2010 inviting the Audit Commission to comment on the captioned subject.

We consider that it will be useful to adopt the proposed objective for hedge accounting (i.e. to represent in the financial statements the effects of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss). This would lay the foundation for a more principle-based approach and assist users in understanding more about hedge accounting requirements. We concur with the proposed use of an objective-based hedge effectiveness assessment as a qualifying criterion, and consider that it is inappropriate for an entity to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy. We also support the proposed disclosure requirement for hedging activities in the statement of financial position, the statement of comprehensive income and the statement of changes in equity. In our view, this would help address user concerns about the insufficient information provided in the financial statements on an entity's hedging activities.

Yours sincerely,

(Andrew Chang)
for Director of Audit