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15 December 2011

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Our Ref: LD/CC/117-11

Mr. Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Steve,

IASB Exposure Draft ED/2011/5 Government Loans (Proposed amendments to IFRS 1) (the "Exposure Draft")

I refer to your letter dated 15 November 2011 on the above to our Mr. Mark Dickens which has been passed to me for my attention.

We have completed our review of the Exposure Draft. The proposed amendment to IFRS 1 is aimed at providing relief to a first-time adopter of IFRSs to permit "prospective application" of paragraph 10A of IAS 20 *"Accounting for Government Grants and Disclosure of Government Assistances"*. This requires the benefit of a government loan at a below-market rate of interest or interest free to be treated as a government grant and should be measured at fair value on initial recognition. The proposed amendment applies to such loans granted on or after the date of transition to IFRSs and avoids the need to measure the fair value of past loans.

Our comments on the Exposure Draft are set out below.

General

We note that the requirement of paragraph 10A of IAS 20, including its transitional relief to existing IFRS preparers was introduced as part of the Annual Improvements issued in May 2008, but no corresponding amendment was made to IFRS 1 at that time. The proposed change highlights the fact that thorough field testing and other impact assessments by the IASB may not have been in place or working properly. Before any new or amended standards are released and adopted, the IASB should assess their impact and implications on all its existing standards at the time. This step should ensure that all relevant standards that need revision are also appropriately amended.

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Conceptual issue

Although measuring a government loan at fair value is consistent with the current accounting standards, we note that it only results in bookkeeping entries that do not reflect actual obligations and real cash flows. Hypothetical interest charges are recognised over the life of the loan which are subsequently reversed on the repayment of the loan. Moreover, we believe that inputs for fair value measurement are based entirely on assumptions and therefore are inherently subjective and not verifiable. This subjectivity will be more extreme for government loans as such loans are usually unique and entity specific and there will be no market comparables.

It is for this reason that we believe that the conceptual justification for recognising hypothetical fair value changes in the income statement should be reconsidered and discussed in the Conceptual Framework Project, and especially for transactions that have a specified monetary contracted value. We believe that the adjustments to fair value do not provide useful and relevant information about the true performance of the reporting entity. They do not improve the ability of users to understand the actual performance and financial position of the reporting entity but may in fact facilitate the easier manipulation of financial statements.

We hope that the above comments are useful.

Yours sincerely,
For and on behalf of
The Stock Exchange of Hong Kong Limited

Colin Chau
Senior Vice President
Listing Division

CC/ESA/el

c.c. Mr. Mark Dickens JP – Head of Listing