

Your Ref: C/FRSC
Our Ref: Lv017/09

BY FAX (2865 6776) & BY Mail

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

Dear Mr Ong

Invitation to comment on IASB Exposure Draft ED 10 *Consolidated Financial Statements* – A comprehensive review of off balance sheet risk

Thank you for your letter dated 21 January 2009, inviting us to comment on the subject matter.

We have consulted our member companies, and they have provided comments as follow:

(1) On definition of control:

"A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity."

Comment: It is good to combine IAS27 and SIC-12 together. Nevertheless, we would suggest setting some kind of guidance/threshold for the level of returns brought by the SPE before deciding whether it has to be consolidated. Some entities may not have direct control over the SPE but provide substantial capital for it whilst others may have active control over the SPE but do not have much stake in it.

The definition of "entity" cover is not limited to a Share Capital's company but also includes an underlying investment unit-linked fund holding by Insurance Company. It is not uncommon for a sizeable insurance company holding hundreds of investment funds. The proposed new accounting standard may lead to significant costs to an Insurance Company which has to review its own investments one by one to justify the consolidation or non-consolidation decision.

From a financial statement user's perspective, the consolidation or non-consolidation of an underlying investment funds holding by an Insurance Company does not help financial statement users to understand the financial results of an Insurance Company, because

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these invested assets in fact belong mainly to Segregated Fund policyholder clients. We would suggest the HKICPA consider excluding the unitized investment fund or mutual fund owned by an Insurance Company from the definition of "entity" in the accounting standard.

(2) On enhanced disclosure requirements for consolidated and unconsolidated entities

Comment: We support enhanced disclosure requirements. However, it may be difficult in practice to obtain information from unconsolidated structured entities for disclosure purposes. For example, for overseas SPE the relevant regulatory regime is less stringent than the IASB and it will incur additional cost to obtain such information.

(3) On whether reputation risk is an appropriate basis for consolidation

Comment: We do not think reputation risk should be made a basis for consolidation. Proper disclosure would be good enough. It will incur substantial cost in obtaining such information for MNE which outweighs the benefit it can bring to shareholders/potential investors.

We look forward to your favorable response.

Yours sincerely



Peter C H Tam
Chief Executive

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