International Accounting Standards Board
8th September 2009

Dear Sirs

Exposure Draft ED/2009/7 Financial Instruments: Classification and Measurement

I am writing to express my comments on the captioned exposure draft as follows:

1. Fund raising hybrid contracts – In today's capital market, it is common for debt issuing entity to raise funds by issuing loan products with features more than just simple and straight forward principal and interest terms in order to enhance attractiveness to investors. If the debt issuing entity has no intention to make profit from trading its own debt instruments but these debt instruments are to be measured at fair value through profit or loss merely because they have features other than basic loan features, such fair value measurement would not fairly reflect the business model of the entity nor result in a fair presentation of the performance and financial position of the entity as such change in fair value will recognize the effect of an opposite change in the entity's credit strength. Therefore, a hybrid contract for a fund raising transaction should be accounted for in the same way as provided in the existing IAS 39 so that any embedded derivatives should be separated from the host when the conditions specified in the existing IAS 39 are met and the host will be qualified to be measured at amortised cost.

2. Subordinated loans – It is mentioned in paragraph B8 and BC27 that subordinated tranche does not have basic loan features because it provides credit protection to other tranches and receives a higher return. However, as mentioned as paragraph B6, a trade receivable that ranks as a general creditor has basic loan features even if the debtor has issued loans that are collaterised and have the priority over the claims of general creditors. A higher return received by a subordinated tranche, which is similar to a higher interest rate payable to lender for an unsecured loan instead of providing pledge, mainly represent compensation for time value of money and credit risk. Similarly, trade payables generally also take into account compensation for time value of money and credit risk when considering grace period and price offered. While both trade payable and subordinated tranche are general creditors and subordinating to other layers of senior debts after considering similar reward and risk factors, it is inconsistent that only the trade payable is eligible to be measured at amortised cost. Subordinated loans should not be deemed not fulfilling the amortised

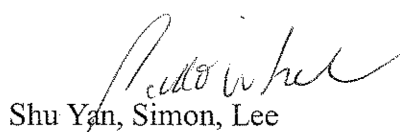
cost criterions.

3. Intercompany balances – It is common that intercompany balances with subsidiaries, jointly controlled entities and associated companies do not have contractual terms as they are in fact "quasi-capital" and represent part of long term interest in the investee companies. Such intercompany balance normally will not be repaid until the investee company is financially comfortable to do so. As these intercompany balances may not be able to meet the condition that an instrument is managed on a contractual yield basis, they will be required to be measured at fair value through profit or loss but it is doubtful whether such information will provide additional benefit to the shareholders. Exemption should be considered for such intercompany balances.

4. Financial asset purchased at a discount – Loan or debt instrument purchased at discount should not be ruled out from meeting the amortised cost criterions as the contractual cash flows shall not be changed by the discount. Acquisition price after discount represents the fair consideration paid by the investor for a market yield after considering the credit risk of the borrower/issuer. As long as the purchased loan or debt instrument is managed and its performance is evaluated on the basis of the contractual cash flows, it should be measured at amortised cost.

5. Transitional provision – Retrospective application of the new IFRS will impose excessive burden on preparers of financial statements, especially the undue effort exerted on measurement of fair value in prior years for those financial assets and liabilities not meeting the amortised cost criterions. While fair values of those financial assets and liabilities at amortised cost previously prepared pursuant to disclosure requirements in IFRS7and IAS32 may help, they can only be traced back to 2004, the comparative period of the 1st year of adoption of the 2 IFRSs. As entities may have to provide comparative figures before 2004, to strike a balance between cost and benefit, prospective application should be considered.

Yours faithfully



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