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From: Anthony Tsang
Sent: Thursday, April 16, 2009 3:52 PM
To: P.T. Comment Letter
Subject: Fw: Comments on proposed FASB Amendments on MTM and impairment

Dear Mr Steve Ong

Attached please find my comments on the captioned subject for your consideration.

Best regards

TSANG Wai Hung

<u>FASB proposed FSP No. FAS 157-e *Determining Whether a Market is Not Active and a Transaction is Not Distressed*</u>

A. The FASB requests that constituents provide comments on the following questions:

1. Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?

The FSP's proposed two-step model seems reasonable in appearance but may be oversimplified the issue especially if market quotes are themselves determined by market makers through the use of valuation techniques, then it is reasonable to believe that the variation of market quotes or widen of bid-ask spread may probably due to the application of different techniques or human judgements. So, even when the market is assessed to be inactive and a transaction is assessed to be distressed, the valuation issue still exists but only switches from relying on external sources to obtains valuations from internal source. This also raises another issue that whether reporting entities have sufficient expertise or can estimate future cash flows reliably in order to apply valuation techniques to do its own fair value measurement, and whether the expertise or judgement made by reporting entities would be better than that of the market makers.

In this context, there should be additional guidance on the adoption and application of appropriate valuation technique in an understandable and operational way, so that the dispersion of valuation results can be minimized and the methodology is consistent amongst reporting entities.

2. Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.

As mentioned in paragraph 12 of the FSP, reporting entity has to evaluate all factors and consider the significance and relevance of each factor and uses its own judgement in determining whether the market is active. Therefore, it is appropriate for the FASB to outline a more precise way to evaluate the significance and relevance of factors, for instance, how disperse of quoted prices or how wide spreads can be justified as inactive, also which factors would be prevalent in case there are mutually contradict factors.

3. Are the factors listed in paragraph 11 of the FSP that indicate that a market is not active appropriate? Please provide any other factors that indicate that a market is not active.

Market transaction volume although may be high enough, the transactions are concentrated on a very limited number of market participants.

4. What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?

The cost incurred may be considerable if each reporting entity has to do its own fair value measurement internally in case the market is inactive and the transaction is distressed. Also, it would be costly and time consuming to monitor the market information for each treasury products to assess whether the market is active or not. So, it would be better if independent accredited organization / agency can help to assess whether a product has an inactive market and provide valuation services to market participants for such products.

B. The IASB would be interested in your views on whether you think the proposed FASB guidance is compatible with the objective of a fair value measurement as described in the Panel report and why or why not.

The proposed FASB guidance suggest way to determine whether the market for the asset is not active, and whether the quoted price is associated with a distressed transaction. When that is the case, the reporting entity must use a valuation technique to estimate fair value.

For IFRS, although there are various stipulations on the treatment when there is active market or not, there is no explicit definition or illustration on what constitutes an active market. In this sense, the amendment of FASB at least give clearer illustrations on how to determine whether there is active market. It seems the amendment is compatible to the objective of fair value measurement described by IASB, and is a complement to the application of active market concept.

FASB proposed FSP No. FAS 115-a, FAS 124-a, and EITF 99-20-b Recognition and Presentation of Other-Than-Temporary Impairments

A. The Board requests that constituents provide comments on the following questions:

1. This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

This proposed FSP does not mention about the rationale behind the separation, and how the users of financial statements can make use of this information. However, as credit loss is a permanent loss (suppose the credit deterioration condition would not reverse in the future) in nature, which is different from price fluctuation due to other factors such as liquidity or interest rate changes, therefore the separation of the two may provide useful and value added information to users of financial statements.

2. This proposed FSP would require that the credit component of the other-than temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, ***Accounting by Creditors for Impairment of a Loan.*** **For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?**

It is appropriate to recognize the credit component of a fair value change of an AFS in the income statement and the remaining portion in the equity if an AFS is assessed to be impaired and would not be sold before recovery of it cost basis. However, as credit loss only applies to debt instruments, this component may simply be separated between permanent loss and non-permanent loss, so that it can be applied to both debt and equity instruments.

3. This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

This should be applied to both debt and equity securities. If the intention of a reporting entity is not to sell an AFS before its recovery, then only the credit loss (permanent loss) is recognized in the income statement.

4. This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

This treatment proposed by FSP is substantially different from IFRS. It is inappropriate to write down the carrying value of held-to-maturity security for the portion that does not relate to credit loss.

B. The initial view of the IASB is that any consideration by the IASB of the FASB proposals would entail substantial changes to IFRSs, and would also significantly delay the comprehensive joint IASB/FASB project to improve the reporting for financial instruments.

I agree with IASB's initial view. In addition, other than the separation of permanent and non-permanent loss for AFS mentioned above, I would also like to suggest the IASB to allow the reversal of impairment for equity securities if there is a significant and prolonged recovery of the amount impaired previously. This is in line with the requirement for the provision of impairment but only operates in a reverse direction. Also, the reversal is based on a change in accounting estimate which the effect would be recognized in the year of change.