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16 November 2009

BY FAX (2865 6776)
AND BY POST

Our Ref: LD/CC/074-09

Mr. Steve Ong
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Hong Kong Institute of Certified Public Accountants
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Wanchai, Hong Kong

Dear Steve,

IASB Exposure Draft ED/2009/11 Improvements to IFRSs ("the Exposure Draft")

I refer to your separate letters dated 2 November 2009 on the above to our Mr. Paul Chow and Mr. Archie Tsim which have been passed to me for my attention.

We have reviewed the Exposure Draft and our comments for your consideration are set out below.

General

The objective of the Exposure Draft is to clarify and improve Standards and remove unintended inconsistencies. We fully support the objectives of the IASB to adopt an annual process to deal with non-urgent but necessary amendments to existing Standards.

However, we believe that, in some issues, the proposed improvements to existing Standards in the Exposure Draft are more than "minor amendments" to be made within the scope of the Improvements project. In the event that the Board decides to proceed with its proposals it should consider and fully address the concerns of constitents before the implementation of the proposed amendments.

We set out some additional comments in the paragraphs below.

Change in terminology to IAS 8

We note that the Board proposes to amend IAS 8 to be consistent with the terminology changes made in the "forthcoming" conceptual framework that will replace the *"Framework for the Preparation and Presentation of Financial Statements"*. We have stressed many times before that the IASB should consider and finalise the conceptual Framework first and we believe it would be inappropriate to proceed with the proposed change to IAS 8 before the conceptual framework is considered and finalised.

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Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The Exposure Draft proposes to amend IAS 27 to state that in the separate financial statements of the investor any impairment testing in respect of investments in subsidiaries, associates or jointly controlled entities would be subject to the impairment requirements of IAS 39 rather than IAS 36 *"Impairment of Assets"*.

We believe it is premature to proceed with the proposed amendment to IAS 27 as potential successive changes are likely to result from other projects undertaken by the IASB. The nature of the IAS 39 replacement project results in changes being introduced in phases. We believe such a piecemeal approach is not desirable. For example, entities will face the difficulty in adopting the amendments introduced by the changes to IAS 27 in the Exposure Draft, without knowing the final changes that will be made to the revised rules on impairment which is dealt with in phase 2 of the IAS 39 replacement project. In addition, there are other requests for information and clarification regarding the application of the proposed new expected loss model for impairment of financial assets and this adds considerably to the burden of preparers, auditors and users in digesting these significant changes and their financial impact.

We understand that under the new IFRS 9 *"Financial Instruments"* all equity investments are carried at fair value. If this is the case, it seems that the impairment concept becomes redundant. We also question whether the proposed change to the impairment model for financial instruments will be an appropriate test for the investments in subsidiaries, associates and jointly controlled entities for impairment, if they are carried at cost in separate financial statements.

IAS 40 Investment Property

The IASB proposes to amend IAS 40 to remove the current requirement to transfer investment property to inventories when an entity decides that it will be developed for sale, that is, such properties will retain their classification as investment property. The proposed change will also require investment property held for sale to be disclosed as a separate line in the statement of financial position and disclosures consistent with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"* will be necessary. The IASB has attempted to remove the inconsistency in the existing IAS 40.

However, we believe that the proposed amendment does not achieve consistency of treatment when there is a change in the use of an investment property. We have concerns that under the current IAS 40 (paragrph 57(d)) an entity may transfer a property from inventory to investment property when its use is changed to be held to earn rentals under an operating lease whereas the proposed amendment prohibits the transfer of a property from investment property to inventories when an investment property is subsequently decided to be developed with a view to sale (that is, the proposal to delete paragraph 57(b) of the current IAS 40).

Paragraph 8(b) of the current IAS 40 states that *"if an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation"*. The IASB should seriously reconsider whether this presumption is valid and appropriate. In future, under the proposed amendment no reclassification of a property from investment property (such as land purchased without a pre-determined use on acquisition) to inventory will be allowed once the initial classification as an investment property has been made.

We also have concerns that determining the fair value of an investment property under construction may not be reliably determined during the development period. It appears to add to complexity and costs and may undermine the comparability of financial statements between entities, especially those engaged in the real estate industry.

We hope that the above comments are helpful.

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

Colin Chau
Senior Vice President
Listing Division

CC/el

c.c. Mr. Paul Chow – Chief Executive
Mr. Archie Tsim – Chief Financial Officer
Mr. Mark Dickens – Head of Listing