Hong Kong Institute of
Certified Public Accountants
香港會計師公會

**6 August 2007**

**To: Members of the Hong Kong Institute of CPAs**
**All other interested parties**

**INVITATION TO COMMENT ON INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) DRAFT INTERPRETATION D22 *HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION***

***Comments to be received by 29 September 2007***

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IFRIC Draft Interpretation which has been posted on the Institute's website at: www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/content.php.

The Draft Interpretation clarifies two issues that have arisen on two accounting standards—IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement*—about the accounting for hedging foreign currency risk within a company and its foreign operations. The IFRIC proposal clarifies what qualifies as a risk in the hedge of a net investment in a foreign operation and where within a group the instrument that offsets that risk may be held.

The IFRIC proposes not to allow the use of hedge accounting when translating a functional currency into a presentation currency because the IFRIC takes the view that this mere translation of currency for presentation use does not represent a hedgeable economic risk. The IFRIC proposes that the hedged risk is the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any parent entity (the immediate, intermediate or ultimate parent entity) of that foreign operation.

It also proposes that the hedging instrument may be a derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) and may be held by any subsidiary or parent entity within a group regardless of the entity's functional currency. To assess how effective the hedging instrument is in offsetting the risk from the foreign operation, the company calculates the change in value of the hedging instrument in the functional currency of the parent hedging its risk and not the functional currency of the subsidiary holding the instrument.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party and the FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the Draft Interpretation.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IFRIC Draft Interpretation to be considered, they are requested to be received by the Institute on or before **29 September 2007**.

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.