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

27 March 2009

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

INVITATION TO COMMENT ON IASB REQUEST FOR VIEWS ON:

(A) PROPOSED FASB AMENDMENTS ON FAIR VALUE MEASUREMENT

(B) PROPOSED FASB AMENDMENTS TO IMPAIRMENT REQUIREMENTS FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES

Responses to be received by 14 April 2009

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments from constituents to the IASB Request for views on the proposals from the US Financial Accounting Standards Board (FASB) that deal with guidance on fair value measurement and impairments of financial instruments. The IASB Request for views can be downloaded from the Institute's website at: www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/content.php.

Both of FASB's proposals are in the form of draft Staff Positions (FSPs) and are intended to provide additional application guidance on fair value measurement and to amend the impairment requirements for certain investments in debt and equity securities.

--- A summary of the main proposals in the two FSPs is set out in the Appendix.

The IASB did not participate in the development of the FASB's proposed FSPs and has not deliberated any of the FASB's conclusions. The proposed FSPs represent the views of the FASB only.

Though the proposed FSPs are a direct response to US-specific requests, the IASB believes that (in the light of its commitment to work jointly with the FASB to address issues arising from the financial crisis) it would be useful to seek the views of interested parties on the FASB's proposed FSPs before deciding whether to publish formal proposals for public comment. This request for views is not an IASB due process document. Any action taken by the IASB will be subject to the IASB's due process.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party.

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

To allow your comments to be considered, they are requested to be received by the Institute on or before **14 April 2009**.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓

Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603

Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

Comments may be sent by mail, fax or e-mail to:

Steve Ong
Director, Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hkicpa.org.hk

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

Links to FASB documents:

The proposed FASB Amendments on Fair Value Measurement and Impairment Requirements for Certain Investments in Debt and Equity Securities are covered by the following two documents:

FASB proposed FSP No. FAS 157-e *Determining Whether a Market is Not Active and a Transaction is Not Distressed*
http://www.fasb.org/fasb_staff_positions/prop_fsp_fas157-e.pdf

FASB proposed FSP No. FAS 115-a, FAS 124-a, and EITF 99-20-b *Recognition and Presentation of Other-Than-Temporary Impairments*
http://www.fasb.org/fasb_staff_positions/prop_fsp_fas115-a_fas124-a_and_eitf99-20-b.pdf

Summary of the main proposals in the two FSPs

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

(1) Many constituents believe that FASB Statement No. 157 *Fair Value Measurements* does not provide sufficient guidance on how to determine whether a market for a financial asset that historically was active is not active and whether a transaction is not distressed.

(2) This FSP provides additional guidance by establishing a two-step process to determine whether a market is not active and a transaction is not distressed.

(3) Step 1 provides factors that indicate that a market is not active. Those factors should not be considered all inclusive because other factors may also indicate that a market is not active. Factors include: (1) few recent transactions, (2) price quotations not based on current information, (3) price quotations varying substantially either over time or among market makers, (4) indices previously highly correlated with asset fair values are now uncorrelated, (5) abnormal (or significant increases in) liquidity risk premiums or implied yields, (6) abnormally wide (or significant increases in) bid-ask spreads, and (7) little information released publicly.

(4) If the reporting entity concludes in step 1 that the market for the asset is not active, then the reporting entity will proceed to step 2. In step 2, the reporting entity must presume that a quoted price is associated with a distressed transaction unless the reporting entity has evidence that (a) there was sufficient time before the measurement date to allow for usual and customary marketing activities for the asset and (b) there were multiple bidders for the asset.

(5) If the reporting entity does not have evidence that both factors are present for a given quoted price, then the reporting entity shall consider that quoted price to be associated with a distressed transaction. When that is the case, the reporting entity must use a valuation technique other than one that uses that quoted price without significant adjustment to estimate fair value.

IFRS Fair Value Measurement

(6) IFRS fair value measurement requirements for financial instruments are set out in IAS 39 *Financial Instruments: Recognition and Measurement.* The IASB also expects to publish an exposure draft on fair value measurement in April 2009.

(7) Additional educational material is set out in the report of the IASB Expert Advisory Panel *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* [follow this link] that was published in October 2008. (The Panel comprised measurement experts from preparers and auditors of financial statements, users of financial statements, regulators and others – more detail about the Panel is available on the IASB website).

(8) The Panel's report describes the objective of a fair value measurement: 'to arrive at the price at which an orderly transaction would take place between market participants at the measurement date'.

(9) 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.

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

(1) The FASB's proposal would change (1) the method for determining whether an other-than-temporary impairment exists (i.e., the "trigger" for an other-than temporary impairment) for both equity and debt securities, and (2) the amount of an impairment charge to be recorded in earnings. To determine whether an other-than temporary impairment exists, the proposal would require an entity to assess the likelihood of selling the security prior to recovering its cost basis. This would be a change from the current requirement for an entity to assess whether it has the intent and ability to hold a security to recovery.

(2) If the entity intends to sell the security or it is more-likely-than-not that the entity will sell the security prior to recovery of its cost basis, the security would be written down to fair value with the full charge recorded in earnings.

(3) On the other hand, if it is not more likely-than-not that the entity will sell the security prior to recovery, the security would not be considered other-than-temporarily impaired unless there are credit losses associated with the security. Where credit losses exist, the portion of the impairment related to those credit losses would be recognized in earnings. Any remaining difference between the fair value and the cost basis would be recognized as part of other comprehensive income. An entity would then be required to separately present the total amount of the impairment loss and the noncredit portion recorded in other comprehensive income on the face of the income statement. The entity would also have to disclose its methodology and key inputs used for determining the amount of credit losses recorded in earnings.

IFRS - Impairment

(4) Significant differences exist between IFRS and US GAPP on impairment requirements. To help inform those who wish to express their views to the IASB, the IASB Request for views document [follow this link] contains:

(a) a summary of relevant US GAAP and the proposed changes;

(b) a summary of relevant IFRS requirements;

(c) a summary of major differences between IFRSs and US GAAP (if amended as proposed); and

(d) concluding comments.

(5) 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.