Winnie Chan

主旨: FW: HKICPA Invitation to Comment on IASB ED of Classification and Measurement: Limited Amendments to IFRS 9

**From:** Steve Ong [mailto:SteveOng@HKEX.COM.HK]
**Sent:** Friday, January 18, 2013 8:06 AM
**To:** Simon Riley; Winnie Chan
**Cc:** ComMem-DICKENS Mark; David Graham; Grace Hui; Dorian Chan; Elce Lee; Committee-FRSC
**Subject:** HKICPA Invitation to Comment on IASB ED of Classification and Measurement: Limited Amendments to IFRS 9

Dear Simon and Winnie,

**HKICPA Invitation to Comment on IASB ED of *Classification and Measurement: Limited Amendments to IFRS 9* (IASB due date: 28 March 2013)**

Thank you for the HKICPA letter dated 11 December 2012 on the subject matter addressed to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following comments for your consideration:

1) Please note that, some 24 months ago, I together with some members of the HKICPA FRSC was of the view that the IASB should not be making limited amendments to IFRS 9 when the Standard had just been issued then and was not yet effective and tested. The IASB had then published the new classification and measurement requirements for financial assets in 2009 and for financial liabilities in 2010, which HKICPA adopted same in full. Any limited amendments should only be done at the post-implementation review stage.

2) However, during the period since then, the IASB have been explaining quite well why the limited amendments are necessary. Firstly, the proposed limited amendments would reduce key differences with the US FASB tentative classification and measurement model to achieve increased comparability internationally in the accounting for financial instruments. Secondly, the limited proposals would take into account the interaction between the classification and measurement of financial assets and the accounting for insurance contract liabilities. Accordingly, with those objectives, I do welcome and support the proposed limited amendments to IFRS 9 given that the project is a joint one with the US FASB and responds to calls from the G20 for a single set of high-quality global accounting standards.

3) The Exposure draft proposes a new category - the introduction of a fair value through other comprehensive income (FVOCI) measurement category for debt instruments that would be based on an entity's business model. This is for financial assets that are managed both in order to collect contractual cash flows and for sale, like some bond investment portfolios.

4) The Exposure draft also proposes another significant change whereby entities will be allowed to early apply the own credit requirements in IFRS 9 for financial liabilities measured under the fair value option without having to early apply IFRS 9 in its entirety. This will improve financial reporting as current standards require the impact of changes in own credit risk on these liabilities to be recognized in profit and loss account leading to large abnormal boost in a bank's profits when its creditworthiness deteriorates, a common feature of major banks' reporting that I have seen reported in the press since the global

financial crisis in 2008. Under IFRS 9, these gains would not be reported in profit and loss and I consider that this is a great improvement for IFRS financial reporting.

5) In this regard, banks, insurance companies and other financial institutions are most likely to be affected by the proposed changes. I would therefore encourage the HKICPA FRSC representatives to commence work with the HKICPA expert panels on Banking and Insurance to start looking into these proposals early before the IASB due date of 28 March 2013, as the proposals could have wide implications for these entities.

Thanks.

Kind regards,
Steve

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