



Our Ref.: C/FRSC

**Sent by email (iasb@iasb.org)**

24 April 2009

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**[Request for views on Proposed FASB Amendments on Fair Value Measurement and to Impairment Requirements for Certain Investments in Debt and Equity Securities](#)**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong.

We are pleased to submit our views on the two sets of FASB proposals that have been finalized on 9 April 2009. We welcome the IASB's effort to seek the views of its constituents on what actions should be taken in response to the FASB's proposals and commend its timely response under such a demanding timetable. We would like to emphasize the importance that while accelerated efforts to address issues arising from financial crises may be helpful, the IASB should continue to commit itself to carefully examine all related issues under a comprehensive approach and follow due process so as to improve the reporting for financial instruments.

**General comments**

In response to G20 recommendations, the IASB is committed to working intensively with the FASB and other national standard-setters in order to achieve "significant progress towards a single set of high quality global accounting standards". We support such joint effort in arriving at global solutions to the financial crisis and are concerned that FASB's unilateral amendments to the fair value guidance and impairment requirements will create pressure on the IASB to follow suit in haste. We are worried that this could further damage investors' confidence in financial reporting.

We are pleased that the IASB and FASB recently announced their plan to undertake, on an accelerated basis, a comprehensive project to replace the existing financial instruments standards with a common and globally accepted standard rather than making further piecemeal adjustments. We are of the view that a more consistent recognition and measurement framework for all financial instruments is a key factor in reducing the complexity in reporting financial instruments. We urge the IASB to complete the important aspects of the project as soon as practicable.

The accelerated pace (two weeks consultation period) at which the FASB moved on the proposals might introduce a higher risk of unintended consequences that only a longer period for consideration would be able to avoid.



In order that the IASB maintains legitimacy as a global standard setter, we urge the IASB to maintain a due process that enables its constituents to provide high quality input to the standard setting process.

**Comments regarding Proposed FSP FAS 157-e “Determining Whether a Market is Not Active and a Transaction is Not Distressed”, finalised as FSP FAS 157-4 “Determining Fair Value When the Volume and Level of Activity for an Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly”**

Proposed FSP 157-e introduces a presumption that quoted prices in inactive markets reflect distressed transactions unless proven otherwise. We do not support this presumption because we believe that in many cases, under current market condition, observable transaction prices in inactive markets are depressed not because transactions involved a distressed party, but because of uncertainty in the markets and the increased risk premiums for illiquidity. We are concerned that entities unable to obtain evidence to overcome the presumption will be forced to develop their own models to estimate fair value. It is likely to result not only in increased costs, but also in less reliable information due to the subjectivity and complexity involved.

In addition, the presumption would imply that a fair value (i.e. a price that a willing buyer would pay in the current market as defined in US GAAP, which is broadly consistent with IFRS) could be achieved in a “hypothetical active market”. It might indicate that entities could recognize financial assets at amounts that could not be realized under current market conditions. As a result, the risk of model arbitrage will increase as firms may pick and choose to use or not to use available market inputs for financial instruments valuation depending on the result the firm would like to obtain and will significantly reduce the transparency that investors and other users of financial statements seek.

We are happy to note that the final FSP removes the presumption that all transactions are distressed unless proven otherwise and require entities to consider whether events and circumstances indicate that the transaction is or is not orderly. We agree that many of the factors included in paragraph 12 of the final FSP would be appropriate in deciding whether there has been a significant decrease in the volume and level of activity for the asset or liability.

Overall, we consider that the final FSP is broadly consistent with the guidance contained in the IASB’s Expert Advisory Panel report issued in October 2008. As reiterated in the final FSP, “fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions”, which is compatible with the objective of a fair value measurement as described in the Panel report.

In this regard, we would encourage the IASB to seek the views of the Expert Advisory Panel to establish whether differences in the words of the FASB Staff Position and the Expert Advisory Panel report are expected to have any practical effect.



**Comments regarding Proposed FSP FAS 115-a, FAS 124-a and EITF 99-20-b “Recognition and Presentation of Other-Than-Temporary Impairments”, finalised as FSP FAS 115-2 and FAS 124-2 “Recognition and Presentation of Other-Than-Temporary Impairments”**

Currently there are differences regarding impairment triggers, measurement of impairment losses, and reversals of impairment losses between IFRS and US GAAP. Besides, the impairment models also differ within the respective frameworks. We recognise the impossibility of directly adopting the FSP in IFRS. With a view to improving the reporting of impairment loss related to financial instruments, we highly recommend that efforts should be placed to develop a consistent model under the comprehensive project undertaken with the FASB.

If you have any questions on our comments, please do not hesitate to contact me at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours faithfully,

A handwritten signature in black ink that reads 'Steve Ong'. The signature is written in a cursive, flowing style.

Steve Ong, FCA, FCPA  
Director, Standard Setting Department

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