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

26 October 2010

Attn: Mr Steve Ong

Dear Sir,

**Re: Exposure Draft of Hong Kong Interpretation 5 Presentation of
Financial Statements – Classification by the Borrower of a
Term Loan that contains a Repayment on Demand Clause**

I am pleased to enclose my submission in response to the above exposure draft.

I have no objection to your disclosing my submission to the public.

Thank you for your attention.

Yours faithfully,



Ng Tai Chiu, David

(Membership no. F1324)

19/10/24

**Re: Exposure Draft of Hong Kong Interpretation 5 (the "Draft")
Presentation of Financial Statements – Classification by the Borrower
of a Term Loan that Contains a Repayment on Demand Clause**

I refer to the above Draft and have the following comments:

Requirement

It is proposed in the Draft that a borrower of a term loan ("TL"), that contains a repayment on demand clause and without an unconditional right to defer payment for at least 12 months after the reporting period, is required to classify the whole loan amount as current liability despite that the TL may have portion of the term loan due over 1 year (the "Classification").

Market Practice

In practice, the Banks in Hong Kong always impose the "Repayment on demand" clause in the loan agreements irrespective of the credit standing and size of the borrower. Also, it is common for Banks in Hong Kong to use the current ratio as a measure for event of default

In Hong Kong, there are a lot of property development companies and companies carrying on long-term projects. These companies will normally rely on term loans to cater for their funding needs at various stages of the development. Thus, such Classification will have big impact on the current ratio and subsequently the going concern issue.

Impact

By adopting such practice, the current liability will increase, thereby impacting on the current ratio and possibly leading to the going concern issue.

Recommendation

I would recommend the Institute not to adopt such Draft as

- 1) It will have big impact on the current ratio and may lead to going concern issue, especially on property development companies and companies carrying out long term projects;
- 2) It is a market practice for banks to impose the "Repayment on demand" clause in the loan agreement irrespective of the credit standing and size of the borrower;
- 3) This Draft will be implemented in short notice and will no doubt create confusion

in the market.

In my view, it is sufficient for the purpose so long as the borrower discloses the "Repayment on demand" clause in the notes to the accounts and the borrower keeps on to classify the TL into short term loan (i.e. due within 1 year after the reporting period) and long-term loan (i.e. due over 1 year after the reporting period) according to the terms of the loan.