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Mr. Simon Riley
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Dear Mr. Riley,

Re: IASB Discussion Paper DP/2014/1 Accounting for Dynamic Risk management: a Portfolio Revaluation Approach to Macro Hedging

I refer to HKICPA's letter of 28 May 2014 inviting for comments on the above Discussion Paper.

Whilst risk management is a common activity that is applied by many entities, current hedge accounting requirements have been criticized as complex but non-reflective of an entity's risk management activities or the success in meeting the entity's risk management objectives.

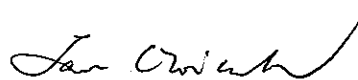
Financial institutions and other entities manage risks, such as interest rate risk, dynamically on a portfolio basis. With the constant changes in the risk exposures and the approach undertaken to manage the risks, the accounting for the dynamic management of open portfolios introduces further challenges and complexities.

Aiming to better reflect entities' dynamic risk management activities as well as reduce accounting complexities, the IASB has started a separate project to develop a new accounting model for the accounting of macro hedging activities. IASB has proposed the portfolio revaluation approach ("PRA") to apply to risks that are managed in portfolios that change over time and for which the associated risk management process is dynamic. Under the PRA, the exposures of risk-managed portfolios will be revalued for changes in the managed risk, with the gain or loss recognised in profit or loss. The fair value changes of risk management instruments will also be recognised in profit or loss. The net effect of the above measurements in profit or loss will present the success of the entity's dynamic risk management.

Risk management is an important business function for many entities. Dynamic risk management activities are continuous and the accounting for the activities is complex. I appreciate the efforts of the IASB and the issue of the Discussion Paper to explore possible approach to improve macro hedge accounting. I broadly support the developing of a new accounting model which is operationally simple for preparers of financial statements and which will provide useful information to users of financial statements about the entities' risk exposures, the dynamic macro hedging activities undertaken to mitigate the risks and the success of these hedging activities.

I appreciate the opportunity to comment on the Exposure Draft.

Yours sincerely,



(Mrs WU LAM Choi-wah)
for Commissioner of Inland Revenue