



31 December 2008

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

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF *PROPOSED AMENDMENTS TO IFRIC 9 and IAS 39 – EMBEDDED DERIVATIVES***

***Comments to be received by 13 January 2009***

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

[www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php](http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php).

The Exposure Draft responds to requests received from those taking part in the recent round-table discussions organised by the IASB and the US Financial Accounting Standards Board (FASB) to clarify the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*.

Following the issue of *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*) in October 2008, the IASB was asked to consider amending IFRSs to prevent any diversity in practice developing as a result of the reclassification of a financial asset. This Exposure Draft seeks to clarify the application of that amendment to embedded derivatives and would require:

- an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.
- the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.
- the entire hybrid financial instrument must remain in the fair value through profit or loss category, if the fair value of an embedded derivative that would have to be separated cannot be reliably measured.

The IASB proposes an effective date for annual periods ending on or after 15 December 2008 so as to ensure appropriate separation of embedded derivatives on reclassification of hybrid (combined) financial assets out of the fair value through profit or loss category.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Exposure Draft.

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

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **13 January 2009**.



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

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

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