



14 May 2008

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

INVITATION TO COMMENT ON IASB DISCUSSION PAPER ON REDUCING COMPLEXITY IN REPORTING FINANCIAL INSTRUMENTS

Comments to be received by 15 August 2008

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

www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php.

The existing requirements for the reporting of financial instruments are widely regarded as difficult to understand, interpret and apply and constituents have urged the IASB to develop standards that are principles-based and less complex. The Discussion Paper is the first stage in a project which aims to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The discussion paper analyses the main causes of complexity in reporting financial instruments and concludes that the long-term solution is a single measurement principle for all financial instruments within the scope of a standard. It also explains why many IASB members consider fair value to be the only measurement that is appropriate for all types of financial instruments. However, many issues and concerns must be addressed before a general fair value measurement requirement could be introduced. Consequently, the discussion paper suggests possible intermediate approaches that would improve and simplify measurement and hedge accounting requirements relatively quickly - including any or a combination of:

- Amending the existing measurement requirements in IAS 39, for instance, by reducing the number of categories of financial instruments;
- Replacing the existing IAS 39 measurement requirements with a fair value measurement principle and some optional exceptions to fair value measurement; and/or
- Simplifying hedge accounting

A summary of the three approaches and their possible implications are set out in the Appendix.

The discussion paper is designed to gather information to assist the IASB in deciding how to proceed in developing new standards that are principles-based and less complex than today's requirements. It will also be considered for publication by the US Financial Accounting Standards Board (FASB) for comment by its constituents.

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 Discussion Paper.

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



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

To allow your comments on the IASB Discussion Paper to be considered, they are requested to be received by the Institute on or before **15 August 2008**.

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.

Summary of the three intermediate approaches that might improve and simplify measurement

Approach 1: Amend the existing measurement requirements

The Discussion Paper lists many ways the existing measurement requirements can be amended. For example:

- (1) To eliminate the held-to-maturity category in IAS 39 or the tainting rules for transfers in and out of the held-to-maturity category both of which would eliminate one source of complexity and remove the risk that preparers would have to recategorise whole groups of instruments because of one mistaken decision and/or
- (2) To eliminate the available-for-sale category and remeasure instruments in that category at fair value through profit or loss. The change would eliminate the need to reclassify, to earnings, gains and losses from other comprehensive income if an instrument is sold or an impairment charge is required to be recognised.

Approach 2: Replace the existing measurement requirements with a fair value measurement principle with some optional exceptions

This approach adopts a fair value measurement principle with some optional exceptions. An instrument within the scope of a standard for financial instruments would be allowed to be measured using a cost-based method only if it meets the exception criteria. The advantage of this approach is that the fair value measurement is consistent with the IASB's long-term objective, though represents a more significant change from existing requirements.

Approach 3: Simplify hedge accounting

The Discussion Paper sets out two general approaches to changing existing hedge accounting requirements. One approach is to eliminate and possibly replace existing hedge accounting requirements. The second approach is to maintain but simplify the existing fair value and cash flow hedge accounting requirements, particularly those relating to designation and documentation, partial hedges and effectiveness testing.