



28 April 2014

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

**INVITATION TO COMMENT ON IASB DISCUSSION PAPER OF ACCOUNTING
FOR DYNAMIC RISK MANAGEMENT: A PORTFOLIO REVALUATION
APPROACH TO MACRO HEDGING**

Comments to be received by 15 September 2014

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:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2014/ed_marco.pdf

As stated in the IASB's press release, accompanying the Discussion Paper, as part of its comprehensive response to the global financial crisis, the IASB is replacing IAS 39 *Financial Instruments: Recognition and Measurement* with an entirely new financial instruments accounting Standard, known as IFRS 9 *Financial Instruments*. That project is in the final stages of completion. However, the IASB decided to treat as a separate project the macro hedging component of these reforms in order to elicit views from a broader range of constituents.

This Discussion Paper represents the first stage in this project on a possible approach to accounting for an entity's dynamic risk management activities, the portfolio revaluation approach (PRA). Under the PRA:

- exposures that are risk-managed dynamically would be revalued for changes in the managed risk through profit or loss.
- fair value changes arising from risk management instruments that are used to manage this risk (derivatives) would also be recognised in profit or loss.
- the success of an entity's dynamic risk management is captured by the net effect of the above measurements in profit or loss.
- fair valuation of the risk exposures that are dynamically managed is not required.

The FRSC invites your comments on the proposals. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered, in developing its response to the IASB, the FRSC requests your comments to be received by the Institute on or before **15 September 2014**.

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.