



26 July 2004

To: **HKSA members**
All other interested parties

INTERNATIONAL ACCOUNTING STANDARDS BOARD PROPOSALS FOR LIMITED AMENDMENTS TO STANDARD ON FINANCIAL INSTRUMENTS

The International Accounting Standards Board (IASB) has published the following three Exposure Drafts (EDs) proposing limited amendments to IAS 39 *Financial Instruments: Recognition and Measurement*:

- Exposure Draft *Transition and Initial Recognition of Financial Assets and Financial Liabilities*
- Exposure Draft *Cash Flow Hedge Accounting for Forecast Intragroup Transactions*
- Exposure Draft *Financial Guarantee Contracts and Credit Insurance*

Two of the proposed amendments are aimed at easing the implementation of the standard by providing additional and immediate guidance on issues identified by the business community; the other is intended to ensure that a guarantor's balance sheet includes all guarantees issued.

A copy of the IASB's press release and the EDs have been posted on the Hong Kong Society of Accountants (HKSA) web site at:

<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft>. The IASB's press release and the EDs can also be found on-line at: <http://www.iasb.org.uk>.

The HKSA Financial Accounting Standards Committee (FASC) invites comments from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the EDs. Comments should be supported by specific reasoning and should preferably be submitted in written form.

On 29 April 2004 the FASC issued an invitation to comment on the IASB's exposure draft of a proposed limited amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on The Fair Value Option. A copy of the invitation to comment, and the IASB's exposure draft, can be accessed on the HKSA website at:

http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/ED-IAS39fv_i2c.pdf. As of the date this invitation to comment is issued, the IASB has not yet finalised the above exposure draft. However, the IASB indicates that the limited amendments proposed in the EDs do not relate to the IASB's ongoing broad examination of the accounting for financial instruments and work on interest margin hedging. The EDs to which this invitation to comment relate should be read in the context of the latest version of IAS 39.

Unlike IAS 39, HKAS 39 currently requires prospective application of the Standard. However, the FASC is considering a proposal to permit, but not require, retrospective application of HKAS 39. In the light of this, the FASC intends, following from the IASB's final approved change to IAS 39 as a result of the Exposure Draft, *Transition and Initial Recognition of Financial Assets and Financial Liabilities*, to allow, but not require, an entity to adopt an approach as proposed under that Exposure Draft if the entity decides to apply HKAS 39 retrospectively. Following from the IASB's final approved changes to IAS 39 as a result of the other two Exposure Drafts, the FASC intends to recommend the adoption of similar changes so that the Hong Kong Financial Reporting Standards maintain conformity with the IASB's standards.

The FASC will not issue specific Hong Kong exposure drafts on the matters covered in the IASB exposure draft unless any changes made by the IASB to the EDs are so significant as to warrant, in the opinion of the FASC, seeking further comment.

To allow your comments on the EDs to be considered and included in the HKSA's response to the IASB, the FASC requests your comments on the accompanying EDs by **30 September 2004**.

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

Mr. Simon Riley
Technical Director (Financial Reporting)
Hong Kong Society of Accountants
4th floor Tower Two, Lippo Centre
89 Queensway
Hong Kong

Fax number: (+852) 2865 6776
E-mail: commentletters@hksa.org.hk

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