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

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

8 November 2007

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IFRIC Draft Interpretation D22 – *Hedges of a Net Investment in a Foreign Operation*

The Hong Kong Institute of CPAs is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the Draft Interpretation D22 *Hedges of a Net Investment in a Foreign Operation*.

We appreciate the IFRIC's initiative to resolve the divergence of views on the foreign currency risk that may be designated as a hedge relationship in the hedge of a net investment in a foreign operation. We support the proposal that in a hedge of the foreign currency risks arising from a net investment in a foreign operation, hedge accounting should not be applied to the foreign exchange differences arising between the functional currency of the foreign operation and the presentation currency of the parent entity. We also support that the hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of any parent entity (the immediate, intermediate or ultimate parent entity of that foreign operation).

However, we consider that further clarification is needed as to whether, when the hedged risk is the foreign currency variability relative to the functional currency of an intermediate parent, the qualifying hedging instrument must be held within the sub-group comprising the intermediate parent and its subsidiaries. To the extent that this is not required, one currency pairing (the functional currency of the intermediate parent and that of the hedged net investment) is essentially being imputed as a portion of another pairing (the functional currency of the ultimate parent and that of the hedged net investment). We would also question whether a qualifying hedging relationship can be established where the group hedges its foreign currency exposure arising from re-translation of a net investment in a foreign operation into the functional currency of an intermediate parent, where the functional currency of the net investment is the same as that of the ultimate parent.

--- To illustrate, using the organisation structure identified in paragraph IE1 of the draft Interpretation (see Appendix) and assuming that Entity C has another subsidiary (Entity W) whose functional currency is £ which is the same as that of its ultimate

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parent (Entity A), Entity B enters into a £ borrowing. D22 appears to allow the hedged risk to be defined as the currency exposure between Entity C and Entity W (i.e. £:€), using Entity B's £ borrowing. In our view this requires a £:€ risk to be considered as a portion of either the £:SF variability (arising from a step-by-step consolidation to Entity B's level) or £:£ (arising upon consolidation at Entity A's level), which is not considered to be appropriate.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkicpa.org.hk.

Yours sincerely,

Patricia McBride
Executive Director

PM/EC/al

Appendix

Example group structure to illustrate hedging of a net investment where the functional currency of the net investment is the same as that of the ultimate parent
(adapted from paragraph IE1 of D22).