China Accounting Standards Committee

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January 15, 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft – *Investments in Debt Instruments: Proposed Amendments to IFRS 7*

Dear Sir David,

The China Accounting Standards Committee appreciates the opportunity to provide its views on IASB's Exposure Draft – *Investments in Debt Instruments: Proposed Amendments to IFRS 7*.

We applaud the prompt actions the International Accounting Standards Board took in respond to the declaration of G20 summit in Washington. We noted that the proposal in the ED will enhance the transparency of disclosure of investment of debt instruments.

However, we do not agree with the proposed disclosure amendments in the ED. We suggest the Board to develop and issue a new comprehensive financial instruments standard, as soon as possible, on the basis of convergence to reduce the complexity of financial instruments standards and improve the comparability and the transparency of financial instruments and related transactions. Responses to your questions are set out in the attached Appendix.

We'd like to discuss further on these issues in more detail with the Board or the staff. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact us.

Yours faithfully,

Liu Yuting
Member and the chief of the office of China Accounting Standards Committee

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Comments on Exposure Draft – Investments in Debt Instruments: Proposed Amendments to IFRS 7

I General Comments

We do not agree with the proposed disclosure amendments in the ED. We suggest the Board to develop and issue a new comprehensive financial instruments standard, as soon as possible, on the basis of convergence, to replace the current IFRSs and US GAAP, thereby to reduce the complexity of financial instruments standards and improve the comparability and the transparency of financial instruments and related transactions. The main reasons are as follows:

(a) The current accounting standards regarding financial instruments are complex enough. Although the piecemeal approach applied the ED might enhance the quality of the financial instruments standard in one or two aspects every time, it's hard to reduce the complexity of IAS 39 and IFRS 7 to avoid the potential inconsistencies.

(b) The proposed amendments require entities to report 3 different pre-tax profits or losses, including the pre-tax profit or loss in the financial statement, the pre-tax profit or loss as though all the investments in debt instruments had been classified as at fair value through profit or loss, and the pre-tax profit or loss as though all the investments in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for at amortised cost. This disclosure requirement will mislead the investors or other users when they are evaluating the entity's financial performance and making relevant economic decisions based on accounting numbers. Therefore, we do not believe this requirement will improve usefulness of accounting information. On the contrary, reliability of the accounting information, especially those presented in the financial statements, will be impaired.

(c) The objective of the issuance of the ED was to resolve the issues arising from different impairment measurements for available-for-sale financial assets, loans and receivables and held-to-maturity, while the proposed amendments failed the objective, and increases the disclosure cost for available-for-sale investments in debt instruments. As ED's proposed amendments, for impaired available-for-sale investments in debt instruments, entities would be required to not only disclose information of decrease in fair value, but also measure the present value of predicted future cash flow, and further disclose the impact on the profit or loss based on the difference between the present value and fair value. The amount of

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work needed to measure the present value would largely be increased. In practice, it's very difficult to measure the present value of certain investments in debt instruments reliably.

II Responses to the Specific Questions

Question 1

We do not agree with the proposal.

In our opinion, disclosure of the pre-tax profit or loss as though all investments in debt instruments had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost would certainly provide more information for users of financial reports. However, excessive disclosure won't make for bad measurement. The proposed disclosure will result in 3 different pre-tax profits/losses based on different measurement attributes applied for all investments in debt instruments other than those classified as at fair value through profit or loss. We believe the contradictive profit or loss information will impair the reliability of the accounting information, and will be misleading for users of financial reports to evaluate entities' performance and make the right decision.

The undergoing IASB project, *Reducing Complexity in Reporting Financial Instruments*, aims at assisting the Board in deciding how to proceed in developing new standards that are principle-based and less complex than today's requirements. This proposed amendments, on the contrary, not only fail to solve the problem of mixed measurement attributes, but also increase complexity in reporting financial instruments and hence reduce the usefulness of accounting information.

Question 2

Reconciliations should not be required. Please refer to the comments on question 1.

Question 3

We do not agree with the proposal.

In our opinion, IFRS 7 requires an entity to disclose the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount

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except for limited conditions, which means the information of carrying amount and fair value required by 30A(b) for loans and receivables and held-to-maturity investments is available already. The carrying amount and fair value of the two classes of assets mentioned above are the same. No incremental accounting information is provided. The objective of disclosing amortised cost of available-for-sale asset is not clear either. Fair value and changes in fair value of available-for-sale assets were required to be disclosed already. IASB always regards fair value as being more useful than amortised cost. Requiring entities to disclose amortised cost would not increase usefulness of information, while burdens entities with higher cost. If the amortised cost was useful, why was the amortised cost of the investments in debt instruments classified as at fair value through profit or loss not required to be disclosed. It seems that the accounting principle should be consistently applied.

Question 4

Should the IASB finalize the ED, we would agree with the scope exemption.

Question 5

We do not agree with the proposed effective date. Considering that annual periods for entities in China always end on Dec 31, and some entities disclosed their financial reports of 2008 already, entities would not have enough time to apply the proposed amendments for the annual period of 2008.

Question 6

Should the IASB finalize the ED, we would agree with the proposed transition requirements.