

Impact of IAS 32 & 39 on Bond Investments

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General Impacts of Accounting

Accounting Perspectives

- ❖ Present a company's financial position
- ❖ Facilitate risk management
- ❖ Transparency
- ❖ Frequent reporting
- ❖ Marked to market valuation preferred

General Impacts of Accounting (cont'd)

Impacts on Bond Investments

Institutional Investors:

- ❖ Investors focus on annual investment return, matching account reporting cycle
- ❖ Avoid putting volatile securities into “trading” portfolios
- ❖ Adopt a lower risk profile in investment
- ❖ Much stronger demand for shorter dated assets

Retail Investors:

- ❖ Mis-conception that bond fund is riskier than single bond holding

Average Duration of Asian Local Bond Markets

	Average Duration (years)
Hong Kong	3.06
Indonesia	3.80
Korea	2.99
Malaysia	3.82
Philippines	2.98
Singapore	4.70
Thailand	5.30

* as at 25 January 2005

Source: HSBC Asian Local Currency Bond Index, Bloomberg

- ❖ Most Asian local bond markets have a “short” duration characteristics, reflecting investors’ risk profile.

Structured Deposits

- ❖ Increased popularity in recent years
- ❖ Offer yield enhancement opportunities
- ❖ Valued on an amortization basis
- ❖ Preferred by some portfolios with long-term investment target but adopting “marked to market” valuation

Impacts of IAS 32 & 39 on Structured Deposit Investments

IAS 32 & 39 emphasize on:

- ❖ Marked to market valuation
- ❖ Adoption of fair value reporting on exposure in financial derivatives

Impacts on Structured Deposit Investments:

- ❖ Depository form: satisfies the intention to hold to maturity
- ❖ Embedded derivatives: “closely related” to the host contract?
- ❖ New rules potentially discourage some long-term investment portfolios to invest into structured deposits
- ❖ Reduced investment opportunities in yield enhancement products