

Your Ref : C/FRSC
Our Ref : Lv03917

By Email only (commentsletter@hkicpa.org.hk)

4 August 2017

Mr Simon Riley
Acting Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Mr Riley

**Invitation to Comment on IASB Request for Information
Post-implementation Review – IFRS 13 Fair Value Measurement**

Thank you for your letter dated 7 June 2017 inviting us to comment on the subject matter.

After consulting our member companies, we have received comments from one of our Members, Prudential Hong Kong Limited, for your consideration.

Yours sincerely



Selina Lau
General Manager - Communications & Committee

cc Prudential Hong Kong Limited

SL/sw

RECEIVED 14 JUL 2017


PRUDENTIAL
英國保誠

The Hong Kong Federation of Insurers
29/F, Sunshine Plaza, 353 Lockhart Road,
Wanchai,
Hong Kong

Attention: Ms Selina Lau, General Manager – Communications & Committee

14th Jul 2017

Dear Ms Lau

Response to the Post-implementation Review – IFRS 13 Fair Value Measurement

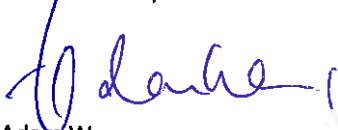
On June 7, 2017, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued an invitation paper to comment on IASB Request for Information Post-implementation Review – IFRS 13 Fair Value Measurement for the Hong Kong insurance industry.

This letter contains Prudential Hong Kong Limited’s (“PHKL”) response. Appendix A sets out comments on particular sections raised by IASB.

In principle, PHKL agrees with the introduction of IFRS 13 as a standard and framework for measurement and disclosure of fair value. However, PHKL suggests that some items may need to be reviewed in further detail by the IASB to potentially clarify or amend certain sections of the standard.

Should you have further comments/questions please feel free to contact us.

Yours sincerely



Adam Wong

Director – Finance

Appendix A – IFRS 13 Post-Implementation Review questions and PHKL’s response

Number	Question	PHKL’s response																																			
Q1A (a)	Principal role in relation to fair value measurement. For example, are you a preparer of financial statements, an auditor, a valuation specialist, a user of financial statements, a regulator, a standard-setter, an academic, or a professional accounting body? If you are a user of financial statements, what kind of user are you (for example, buy-side analyst, sell-side analyst, credit rating analyst, creditor/lender, asset or portfolio manager)?	PHKL prepares its financial statements based on HKFRS.																																			
Q1A (b)	Principal jurisdiction and industry. If you are a user of financial statements, which geographical regions and industries do you follow or invest in?	PHKL underwrites mainly life insurance business in Hong Kong.																																			
Q1B	How extensive is your experience in relation to the measurement of the following items at fair value (including the measurement of their recoverable amount on the basis of fair value less costs of disposal)?	<table border="1" data-bbox="756 315 1337 1272"> <thead> <tr> <th data-bbox="756 860 820 1272" rowspan="2">Type of item</th> <th colspan="3" data-bbox="756 315 820 860">The extent of your experience with fair value measurements</th> </tr> <tr> <th data-bbox="820 680 884 860">Little</th> <th data-bbox="820 501 884 680">Some</th> <th data-bbox="820 315 884 501">Much</th> </tr> </thead> <tbody> <tr> <td data-bbox="888 860 952 1272">Property, plant and equipment</td> <td data-bbox="888 680 952 860"></td> <td data-bbox="888 501 952 680">✓</td> <td data-bbox="888 315 952 501"></td> </tr> <tr> <td data-bbox="952 860 1016 1272">Intangible assets including goodwill</td> <td data-bbox="952 680 1016 860">✓</td> <td data-bbox="952 501 1016 680"></td> <td data-bbox="952 315 1016 501"></td> </tr> <tr> <td data-bbox="1016 860 1080 1272">Investment Properties</td> <td data-bbox="1016 680 1080 860">✓</td> <td data-bbox="1016 501 1080 680"></td> <td data-bbox="1016 315 1080 501"></td> </tr> <tr> <td data-bbox="1080 860 1144 1272">Biological assets</td> <td data-bbox="1080 680 1144 860">✓</td> <td data-bbox="1080 501 1144 680"></td> <td data-bbox="1080 315 1144 501"></td> </tr> <tr> <td data-bbox="1144 860 1208 1272">Investments in subsidiaries, Joint ventures or associate</td> <td data-bbox="1144 680 1208 860">✓</td> <td data-bbox="1144 501 1208 680"></td> <td data-bbox="1144 315 1208 501"></td> </tr> <tr> <td data-bbox="1208 860 1272 1272">Financial instruments</td> <td data-bbox="1208 680 1272 860"></td> <td data-bbox="1208 501 1272 680"></td> <td data-bbox="1208 315 1272 501">✓</td> </tr> <tr> <td data-bbox="1272 860 1335 1272">Other (please specify which)</td> <td data-bbox="1272 680 1335 860"></td> <td data-bbox="1272 501 1335 680">✓</td> <td data-bbox="1272 315 1335 501"></td> </tr> </tbody> </table> <p data-bbox="1369 994 1399 1272">Others: <u>Policy loan</u></p>	Type of item	The extent of your experience with fair value measurements			Little	Some	Much	Property, plant and equipment		✓		Intangible assets including goodwill	✓			Investment Properties	✓			Biological assets	✓			Investments in subsidiaries, Joint ventures or associate	✓			Financial instruments			✓	Other (please specify which)		✓	
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Other (please specify which)		✓																																			

Number	Question	PHKL's response
Q2 (a)	How useful do you find the information provided about Level 3 fair value measurements? Please comment on what specific information is useful, and why.	<p>Level 3 assets are generally less common and are more unique by nature. The number of transactions and related details that can be observed in market is relatively low.</p> <p>Without open market price for comparison/ reference, the information provided about level 3 fair value measurements is useful in the sense that it provides users an understanding of the valuation approach and significant unobservable inputs (IFRS13.93(d)) as well as the sensitivity of fair value to change in unobservable inputs (IFRS13.93(h)); so that users can exercise their judgments to assess the fair value for their respective purposes.</p>
Q2 (b)	<p>In your experience of Level 3 fair value measurements:</p> <p>i. How do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.</p> <p>ii. Are you aware of any other factors (either within or outside IFRS requirements) affecting the usefulness of the information? Please provide examples to illustrate your response.</p> <p>iii. Do you have suggestions on how to prevent such factors from reducing the usefulness of the information provided?</p>	<p>i. PHKL believe that the disclosure requirements of IFRS 13 for assets and liabilities measured at fair value will generally provide useful information. However, the volume of disclosures is quite significant, and may affect the usefulness of the resulting information. Instead of the requirement for the disclosures to cover all classes of assets and liabilities, PHKL suggests the disclosure requirements should only apply to "material" asset and liability items (following a "management approach"). PHKL believes that only including information focused on material classes of assets / liabilities may be more useful to users.</p> <p>ii. & iii.</p>

Ref	Level 3 disclosure	Factors reducing the usefulness	Suggestions to enhance usefulness
13.93 (d)	<p>Require description of valuation technique and the inputs used in the fair value measurement.</p> <p>Require disclosure of quantitative information about significant unobservable inputs</p>	<p>1. Based on the current requirement, users may get very large volumes of information if valuation techniques and significant inputs need to be described for each type of asset and liability measured at fair value. This is because valuation techniques and inputs may differ for different classes of assets and liabilities, and within the same class of financial asset and</p>	<p>1. Similar to the reply to Q2b(i) above, PHKL suggests to limit the disclosure requirement to only "material" assets and liabilities, with some guidance on judging materiality or following a "management approach".</p> <p>2. Disclosure requirements should include the reason for the specific valuation technique</p>

			<p>liability. For example, different securities broker may adopt different inputs and valuation processes.</p> <ol style="list-style-type: none"> 2. It is "subjective" to determine which unobservable inputs are "significant". 3. The user may be unable to conclude whether the significant unobservable inputs are reasonable. e.g. if 4% benchmark yield-to-maturity is used, the reasonableness of 4% may be questioned. 	<p>chosen.</p> <ol style="list-style-type: none"> 3. IASB may need to clarify the meaning of "significant" in the context of "significant unobservable inputs". 4. Disclosure requirements are suggested to include a brief rationale for the inputs where judgement may be required.
13.93 (h) (i)	Require a narrative description of the sensitivity of the fair value to inputs if change in inputs may result in to significant change in fair value	It is subjective to determine what represents a "significant" change in fair value.	IASB may need to clarify the definition of "significant" in this context, with some guidance on how to determine significance.	
13.93 (h) (i)	IFRS 13 states that if there are interrelationships between various inputs, an entity shall also provide a description of those Interrelationships and of how they might magnify or mitigate the changes in fair value.	The correlation between some inputs may be complex / dynamic in nature, and the net effect on fair value may not be easily measurable.	PHKL suggests that the disclosure requirements should only require a basic description of interrelationships between inputs. The description may be qualitative in nature if a measure of the interrelationships is complicated.	

Number	Question	PHKL's response
Q2 (c)	Which Level 3 fair value measurement disclosures are the most costly to prepare? Please explain.	As highlighted in the response to Q2 (b), PHKL finds it potentially costly to meet the disclosure requirements, if this is required to cover all class of assets and liabilities measured at fair value.
Q2 (d)	Is there information about fair value measurements that you think would be useful and that IFRS 13 does not require entities to disclose? If yes, please explain what that information is and why you think it would be useful. Please provide any examples of disclosure of such information.	No additional comments to note, apart from previous responses above.

Number	Question	PHKL's response
Q3	<p>Prioritizing Level 1 inputs or the unit of account</p> <p>a) Please share your experience to help us assess:</p> <ul style="list-style-type: none"> i. How common it is for quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units to be measured at fair value (please support your comments with examples). ii. Whether there is material differences between fair value amounts measured on the basis of PxQ alone (when P is the quoted price for an individual instrument and Q is the quantity of financial instruments held) and fair value amounts measured using other valuation techniques. Please provide any examples, including quantitative information about the differences and reasons for the differences. iii. If there are material differences between different measurements, which techniques are used in practice and why. Please note whether your experience is specific to a jurisdiction, a region or a type of investment. <p>b) The Board has undertaken work in this area in the past (see Appendix 3). Is there anything else relating to this area that you think the Board should consider?</p>	<p>N/A. PHKL has no quoted investment in subsidiaries, joint ventures and associates.</p>

Number	Question	PHKL's response
Q4	<p>Please share your experience to help us assess:</p> <p>(a) Whether the assessment of an asset's highest and best use is challenging, and why. Please provide examples to illustrate your response.</p> <p>(b) Whether the current uses of many assets are different from their highest and best use, and in which specific circumstances the two uses vary.</p> <p>(c) Whether, when applying highest and best use to a group of assets and using the residual valuation method, the resulting measurement of individual assets in the group may be counter-intuitive. If so, please explain how this happens, and in which circumstances.</p> <p>(d) Whether there is diversity in practice relating to the application of the concept of highest and best use, and when and why this arises.</p> <p>Please note whether your experience is specific to a jurisdiction, a region or a type of asset.</p>	<p>PHKL finds it challenging to assess the highest & best use value of some non-financial assets (e.g. tailor-made software, renovation work, etc.), as there is no secondary market or market participant data for such assets.</p>
Q5	<p>Please share your experience to help us assess the challenges in applying judgments when measuring fair value:</p> <p>(a) Is it challenging to assess whether a market for asset or liability is active? Why, or why not?</p> <p>(b) Is it challenging to assess whether an input is unobservable and significant to the entire measurement? Why, or why not?</p> <p>Please provide specific examples to illustrate your response and note whether your experience is specific to a jurisdiction or a region or a type of asset or liability.</p>	<p>(a) PHKL finds it practically challenging to determine if the market is active or not for financial instruments which are traded in an over-the-counter ("OTC") market.</p> <p>(b) PHKL finds it practically challenging to determine which inputs are observable and insignificant. Further guidance on how to define the terms "significant" and "observable" may be required for this classification.</p>
Q6A	<p>Please describe your experience of measuring the fair value of biological assets:</p> <p>a) Are any aspects of the measurement challenging? Why, or why not? Please provide examples to illustrate your response.</p> <p>b) What, if any, additional help would be useful in applying IFRS 13? In which areas?</p>	<p>Not applicable as no biological assets are held by PHKL and thus there is no experience of measuring its fair value.</p>

Number	Question	PHKL's response
Q6B	<p>Please describe your experience of measuring the fair value of unquoted equity instruments:</p> <p>a) In 2012, the IFRS Foundation Education Initiative published unquoted equity instruments within the scope of IFRS 9 Financial Instruments. Have you used this education material? If so, how did this material help you to measure the fair value of unquoted equity instruments?</p> <p>b) Do you have questions not covered in unquoted equity instruments within the scope of IFRS 9 Financial Instruments? Do you think that additional help would be useful in applying the requirements? Why, or why not? Please provide examples to illustrate your response.</p>	<p>Not applicable as no unquoted equity instruments are currently held by PHKL and thus there is no experience of measuring its fair value.</p>
Q7	<p>Effects and convergence</p> <p>a) Please share your experience of the overall effect of IFRS 13:</p> <p>i. What effect did IFRS 13 have on users' ability to assess future cash flows? If you are a user of financial statements, please provide us with examples of how you use information provided by entities about their fair value measurements and any adjustments you make to the measurements.</p> <p>ii. What effect did IFRS 13 have on comparability of fair value measurements between different reporting periods for an individual entity and between different entities in the same reporting period?</p> <p>iii. What effect did IFRS 13 have on compliance costs; specifically, has the application of any area of IFRS 13 caused considerable costs to stakeholders and why?</p> <p>b) Please comment on how you are affected by the fact that the requirements for fair value measurement in IFRS 13 are converged with US GAAP; and please comment on how important it is to maintain that convergence.</p>	<p>a)</p> <p>i. PHKL believes that IFRS 13 should not affect the user's ability to assess future cash flows.</p> <p>ii. PHKL finds that IFRS 13 enhances the comparability of fair value measurements between different reporting periods for an individual entity. However, the measurements may not be comparable between different entities, especially if entities using different valuation techniques.</p> <p>iii. As mentioned in the response to Q2, PHKL finds that it is costly to prepare for disclosure requirement for all classes of assets and liabilities measured at fair value.</p> <p>b) PHKL expects no impact, as PHKL prepares its financial statements under IFRS and not under US GAAP.</p>

Number	Question	PHKL's response
Q8	Should the Board be aware of any other matters as it performs the PIR of IFRS13? If so, please explain why and provide examples to illustrate your response.	N/A.