



Meeting summary – Roundtable discussion with The Hong Kong Society of Financial Analysts (HKSFA)

Date/time: Wednesday, 16 August 2017, 12:45 p.m. – 13:45 p.m.

Venue: Conference Room, 14/F, BOC Group Life Assurance Tower, 136 Des Voeux Road Central, Hong Kong

Are Fair Value Information in Annual Financial Reports Useful To You?

1. HKSFA members thought that the fair value information provided financial reports are useful but generally not adequate for their analysis. For example, the reconciliation of level 3 investments provides useful information about the movements between two years—however, the aggregation does not provide sufficient information to assess the impact of each investment.
2. HKSFA members also commented that disclosing an aggregated range of unobservable inputs (e.g. discount rate from 10%-30%) is not useful. An average or mean of inputs would provide more meaningful information to analysts.
3. HKSFA members were aware of the disclosure burden. They suggested that entities be required to disclose valuation assumptions of significant investments only, for example, investments that constitute more than 10%-15% of that class of investment.
4. HKSFA members also suggested that standard-setters set out recommended valuation approaches, assumptions and range of inputs for common types of investments. This would improve comparability of the same investment held by different companies.
5. HKSFA members commented that investors or analysts generally perform due diligence work on unquoted investments. In their experience, both methods (PxQ, and investment as a whole) are adopted when valuing quoted associates or joint ventures investments. However, they would prefer valuation of an investment as a whole as it reflects the future prospect of the investment.
6. HKSFA members agreed that valuation is judgemental and can be easily manipulated. They considered the name, company and accreditation of valuers should be disclosed for transparency reasons.

7. Overall, HKSFA members commented that valuation is generally a subjective matter. For fair valuation information to be useful, the governance around valuation need to be strong. HKSFA members are usually uncomfortable with valuations mainly because:
- the industry is not regulated and there is noted proliferation of small practices that are not competent/ethical;
 - there are many valuation frameworks/standards globally and they are uncertain whether the frameworks are consistent; and
 - they have noted some companies that employ a related party to conduct the valuation.