Responses from Standard Chartered Bank (Hong Kong) Limited

Question 1A—Your background

Please tell us:

(a) your 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)?

(b) your principal jurisdiction and industry. If you are a user of financial statements, which geographical regions and industries do you follow or invest in?

Question 1B—Your experience

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)?

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 associates			
Financial instruments			
Other (please specify which)			

Response:

Standard Chartered Bank (SCB) operates in an international banking sector. Its principal jurisdictions are the United Kingdom, Hong Kong, Singapore, India and the United Arab Emirates. As of 31 December 2016, SCB measured USD191mil (HKD1,485mil) of financial assets and USD82mil (HKD639mil) of financial liabilities at fair value on balance sheet. SCB therefore has extensive experience in measuring financial instruments at fair value and the associated reporting and disclosures under IFRS.

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 associates		✓	
Financial instruments			✓
Other			

Notes on the above:

- Fair values of aircraft and shipping vessels determined for asset impairment test. Also have experience of assessing property values for collateral purposes.
- Fair values of intangible assets for asset impairment test.
- Minimal investment property inventory.
- No biological asset inventory.
- Subsidiaries are held at cost in individual financial statements, and associates and joint ventures are equity accounted.
- Vast experience in measuring range of financial instruments at fair value.

Question 2—Fair value measurement disclosures

(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.

(b) In your experience of Level 3 fair value measurements:

   (i) how do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.

   (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.

   (iii) do you have suggestions on how to prevent such factors from reducing the usefulness of the information provided?

(c) Which Level 3 fair value measurement disclosures are the most costly to prepare? Please explain.

(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.

Response:

In general, disclosures that disaggregate instruments measured at fair value on balance sheet by fair value hierarchy are useful information for users of its financial statements. However, we believe that the following requirements do not provide useful information to users of the financial statements, since this is not information used by management and to its knowledge does not attract many questions from users:

- IFRS 13:93(e) - the Level 3 movement reconciliation table
- IFRS 13:93(f) - change in unrealised gains / losses attributable to recurring L3 instruments

The cost of preparing these disclosures is also high since purchases, settlements and sales, etc. need to be tracked separately. The objective could be met more cost effectively if only sub-paragraphs e(i) and e(ii) were required, or requiring only narrative disclosure to explain the major changes since the last reporting date was required.

Question 3—Prioritising Level 1 inputs or the unit of account

(a) Please share your experience to help us assess:
   (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 are material differences between fair value amounts measured on the basis of P×Q 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.

(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?

Response:
SCB's accounting policies are designed as such that it does not often measure investments in subsidiaries, joint ventures or associates at fair value.

Question 4—Application of the concept of highest and best use for non-financial assets

Please share your experience to help us assess:

(a) whether the assessment of an asset's highest and best use is challenging, and why. Please provide examples to illustrate your response.
(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.
(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.
(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.

Please note whether your experience is specific to a jurisdiction, a region or a type of asset.

Response:
We do not have significant issues in dealing with the concept of "the highest and best use for non-financial assets", and believes that the existing guidance in IFRS 13 is sufficient.

Question 5—Applying judgements required for fair value measurements

Please share your experience to help us assess the challenges in applying judgements when measuring fair value:
(a) is it challenging to assess whether a market for a asset or a liability is active? Why, or why not?
(b) is it challenging to assess whether an input is unobservable and significant to the entire measurement? Why, or why not?
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

Response:
While judgments required for fair value measurements can be challenging, SCB believes that it has sufficient experience in making these judgements and that additional guidance in the standard would be of limited value.

Question 6A—Education on measuring biological assets at fair value

Please describe your experience of measuring the fair value of biological assets:
(a) are any aspects of the measurement challenging? Why, or why not? Please provide examples to illustrate your response.
(b) what, if any, additional help would be useful in applying IFRS 13? In which areas?

Question 6B—Education on measuring unquoted equity instruments at fair value

Please describe your experience of measuring the fair value of unquoted equity instruments:
(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?
(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.

Response:
6A: SCB does not have any biological assets and therefore deem inappropriate to comment on this question.

6B: The Group has a private equity portfolio, for which earning multiples techniques such as Price-Earnings, Price-Book, Price-Sales and EBITDA multiples are used to compare the private equity to listed companies. Such techniques were well established in market practice prior to 2012, we therefore did not use this education material.

Question 7—Effects and convergence

(a) Please share your experience of the overall effect of IFRS 13:
   (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.
   (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?
   (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?

(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.

Response:
We believe that, the overall measurement requirements of IFRS 13 have helped to improve the comparability of financial statements. SCB believes that the two disclosure aspects are costly to prepare while not providing information of great use to users of the financial statements and would not identify any areas which significantly increased compliance costs since the concept of fair value hierarchy had already been introduced in IFRS 7.

There are no specific comments on the convergence with US GAAP since SCB does not prepare accounts under US GAAP.

Question 8—Other matters

Should the Board be aware of any other matters as it performs the PIR of IFRS 13? If so, please explain why and provide examples to illustrate your response.

Response:
No other matters came to our attention.