Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting summary – SMPC Technical Issues Working Group

Date/time: Thursday, 27 July 2017, 9:30 a.m. – 11:45 a.m.

Venue: Conference Room, 37/F, Hong Kong Institute of Certified Public Accountants

Working Group members present:
Anntice Lai, Baker Tilly
Basilia Wong, HLB Hodgson Impey Cheng
Colin Chau, RSM Hong Kong
Edmund Wong, Patrick Wong CPA
Gary Poon, Poon & Co
Kenneth Lau, Crowe Horwath
Philip Fung, Lak & Associates CPA
Wing Chan, BDO Limited (Dial-in)

Staff in attendance:
Anthony Wong, Associate Director, Standard Setting
Eddy Wong, Deputy Director, Member Support
Eky Liu, Associate Director, Standard Setting
Kam Leung, Associate Director, Standard Setting

Apologies:
Elizabeth Law, Law & Partners
Jimmy Yip, Mazars
Sharon Chan, Grant Thornton
Thomas Wong, Nexia Charles Mar Fan & Co

Post-implementation Review – IFRS 13 Fair Value Measurement

1. The working group considers the information provided about Level 3 fair value measurements are generally useful, in particular, amounts recognized in profit or loss and other comprehensive income from Level 3 assets disaggregated by type and nature.

2. Paragraph 92 of IFRS 13 requires an entity to consider the level of detail that is necessary (aggregation or disaggregation) and whether its users of financial statements need additional information to evaluate the quantitative information disclosed. The working group considers the usefulness of the information can be increased if preparers follow this requirement and the general principles in IAS 1. On the other hand, they welcome more guidance/examples for aggregation from IASB, for example, by industry or zone of stock exchanges if the entity considers the information is useful to specific users.

3. The working group thinks quantitative sensitivity analysis on significant

unobservable inputs can be most costly to prepare if it involves very complicated financial modelling that are typically performed by valuation specialists.

4. The working group considers it is uncommon for quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units to be measured at fair value. An entity normally measures the joint ventures and associates at cost in its company-level financial statements and equity-accounts the investment for in consolidated financial statements.

5. The working group considers using PxQ alone is simple but not necessarily accurate to determine the fair value of an investment as a whole. The working group thinks the valuation should take into account the effects of significant influence, synergy or group management team, etc.

6. The working group considers, in some circumstance, an entity may not use an asset according to its highest and best use for strategic and commercial reasons. However, the standard requires non-financial assets to be measured at fair value assuming its highest and best use by market participants. This is cumbersome and costly as some entities are forced to perform financial feasibility studies and cash flow projections.

7. In assessing the highest and best use of non-financial asset, it is presumed to be the current use. However, a potential different use can be suggested by market participant. Hence, it will result in diversity in practice to what extent the highest and best use assessment (i.e. whether it is physically possible, legally permissible and financially feasible) is performed.

8. The working group agreed that the assessment of whether a market is active and comparable transactions are 'recent' or 'relevant' are challenging and involves judgement. The working group thinks that the standard has sufficient guidance on whether an input is unobservable and thus has not found this to be challenge.