

Weekly HKFRS/IFRS Q&As – Q&A # 2

January 2014

Since last week, we started to publish weekly HKFRS/IFRS Q&As that aim to help you deal with the application issues during the busy reporting season (in the coming 2 months). Weekly HKFRS/IFRS Q&As will be issued **each Friday**. This week, the Q&A is issued a bit earlier due to the Chinese New Year holiday. Here is the link to the previous Q&A <http://www.iasplus.com/en/tag-types/hong-kong/qa>.



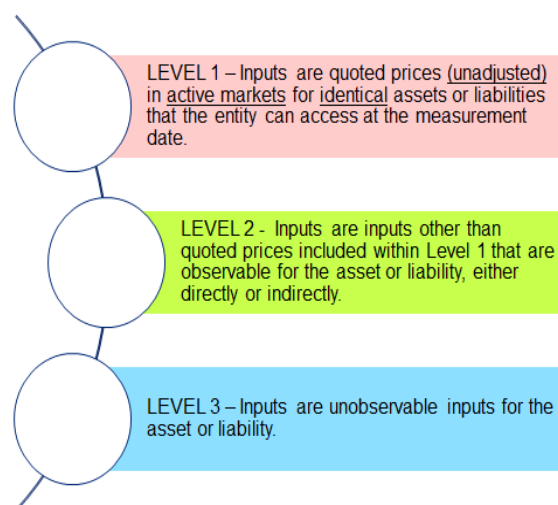
As always, if you have any questions on application of HKFRS/IFRS, please contact us.

Q&A#2 – How should fair value of real estate properties be categorised under HKFRS 13/IFRS 13? Level 1, 2 or Level 3?

Background

As you know, HKFRS 13 / IFRS 13 *Fair Value Measurement* became mandatorily effective for 2013 financial year for the first time. HKFRS 13 is identical to IFRS 13 – accordingly, the references to accounting standards below refer to HKFRSs only.

HKFRS 13 contains many disclosure requirements applicable to both financial instruments and non-financial instruments (e.g. investment properties).



One disclosure under HKFRS 13 requires fair value measurement to be categorised into the 3-level fair value hierarchy based on inputs and assumptions used in arriving at the fair value (see the above picture).

The level of the fair value hierarchy will affect the amount of disclosures to be included in annual financial statements – much more disclosures are required for Level 2 and Level 3 classification. For example, for Level 2 and Level 3 classifications, entities are required to disclose valuation techniques and inputs used in arriving at the fair value. For Level 3 classification, even more disclosures are required (e.g. quantitative information about the significant unobservable inputs used in the fair value measurement, reconciliation from the opening balances to the closing balances of the subject asset or liability, valuation processes adopted by the reporting entities and narrative description of the sensitivity of the fair value measurement, etc.).

Question:

How should fair value measurements ("FVM") of real estate properties be categorised?

Response:

Due to the unique feature of each property, it is unlikely to categorise the fair value of a real estate property as 'Level 1' (as no properties are identical).

Whether the FVM is classified as a 'Level 2' or 'Level 3' measurement requires an analysis of the nature of inputs and assumptions used to estimate the fair value. Recently, the Standard Setting Department of the Hong Kong Institute of Certified Public Accountants has published a Q&A article titled "Application of fair value hierarchy to real estate" in the January 2014 edition of the HKICPA's A-Plus magazine. 3 key points set out in that article are summarised below:

- The classification into the 3-level hierarchy is not an accounting policy choice – entities need to take into account inputs and assumptions used in arriving at the fair value in order to determine the appropriate level of the fair value hierarchy.
- How the FVM is categorised has nothing to do with the quality of the valuation. For example, the fact that a real estate property is classified as Level 3 does not mean that the property valuation is not reliable – the Level 3 classification merely shows that unobservable inputs are used and significant judgement is required in arriving at the fair value.
- Because of the uniqueness of property, significant adjustments to observable market inputs are likely in valuations, which would fall within Level 3.

Here is the link to the newsletter <http://app1.hkicpa.org.hk/APLUS/2014/01/> – only English version is available.

Below are some examples.

- Example 1 – Entity A owns a residential apartment unit in Sha Tin, Hong Kong. The fair value of the apartment unit is based on the recent transaction prices of similar units in the same block of building or the buildings nearby (e.g. recent transaction price of HK\$ [xx] per square ft. multiplied by [yy] square ft. of the subject apartment unit.). The recent transaction prices are observable inputs. Where there are no significant adjustments to the observable inputs (i.e. the recent transaction price), the FVM qualifies as 'Level 2' classification. However, where there are no sufficient recent transactions of similar units to justify that there is an active market for similar properties, 'Level 2' classification is not appropriate and hence the FVM should be classified as 'Level 3' instead.
- Example 2 – Same facts as Example 1 except that the subject property is located just a few floors above a 'bad incident' that occurred a few years ago. In arriving at the fair value, possible adjustment to observable inputs (i.e. recent transactions of similar properties but that are not located near the 'incident') range from 40 – 70 per cent – in practice, valuations from different valuers would very likely be different. With such a fact pattern and significant judgement is involved in determining the adjustment to be made in arriving at the fair value, it is not appropriate to classify the fair value as Level 2. Instead, it should be classified as Level 3.
- Example 3 - Entity A owns a commercial property in Admiralty, Hong Kong (land and the entire block of building) – there are no buy and sell transactions in the market for similar properties. In determining the fair value of the commercial property, Entity A engages a valuer to determine the fair value. The valuer adopts an income capitalisation approach - it estimates the rental income and rental yield with reference to the average rental income / rental yield of commercial properties located in Admiralty and Wan Chai. Given the fact that significant judgement is required to be made in arriving at the estimates (e.g. adjustments to be made to the observable yields of other properties in arriving at the rental yield to be used as the capitalisation rate), the fair value of the commercial building should be categorised as Level 3.

As mentioned above, the classification of the fair value measurement will affect the level of disclosures to be included in an entity's financial statements. Please ensure appropriate level of disclosures as required by HKFRS 13 are made in the financial statements.

Contact us:

If you have any questions on the subject matters discussed above, please feel free to contact us.

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HKFRS/IFRS 每周问答 – Q & A #2

2014 年 1 月

我们自上周起开始发布香港财务报告准则/国际财务报告准则 (HKFRS/IFRS) 每周问答，以协助您在报告忙季中处理相关应用问题。HKFRS/IFRS 每周问答将于**每周五**发布。由于农历假期，今星期的问答较早发放。请点击 <http://www.iasplus.com/en/tag-types/hong-kong/qa> 参阅以前发的每周问答。



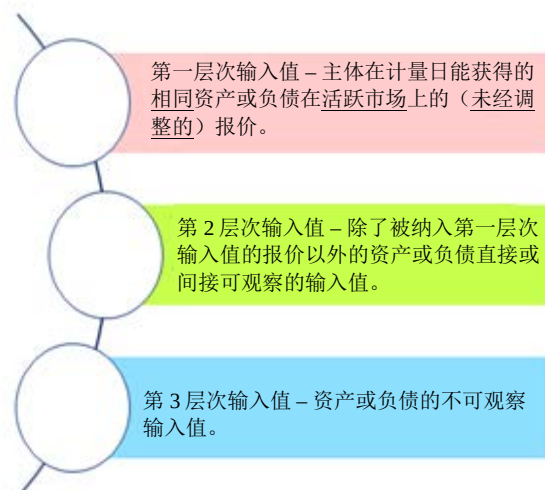
如同往常一样，如您对 HKFRS/IFRS 的应用有任何疑问，请与我们联系。

Q&A#2 – 房地产物业的公允价值应如何根据 HKFRS 13/ IFRS 13 进行归类？是应当归入第一层次、第二层次还是第三层次？

背景

如您所知，《香港财务报告准则第 13 号/国际财务报告准则第 13 号——公允价值计量》（HKFRS 13/ IFRS 13）自 2013 财务年度起首次强制生效。HKFRS 13 与 IFRS 13 完全相同 – 因此，下文的会计准则段落索引仅提及 HKFRSs。

HKFRS 13 包含诸多同时适用于金融工具和非金融工具（如，投资性房地产）的披



露要求。

HKFRS 13 中的一项披露要求规定，公允价值计量应基于计算公允价值时所使用的输入值和假设归入三个层次的公允价值级次（请参见上图）。

公允价值级次的层次将影响拟纳入年度财务报表的披露 – 针对归入第二层次和第三层次的公允价值计量须提供更多披露。例如，对于归入第二层次和第三层次的公允价值，主体必须披露计算公允价值时所使用的估值技术和输入值。而对于归入第三层次的公允价值，还须提供更多的披露（如，有关公允价值计量所使用的重大不可观察输入值的定量信息、相关资产或负债的期初余额与期末余额之间的调节、报告主体所采用的估值流程、及公允价值计量的敏感性的叙述性描述等）。

问题：

房地产物业的公允价值计量应如何进行归类？

回答：

鉴于每一项物业均各具特点，因此房地产物业的公允价值是不可能归入为“第一层次”（因为不存在完全相同的物业）。

为确定公允价值计量是应归入“第二层次”还是“第三层次”，必须对输入值的性质及用于估计公允价值的假设进行分析。近期，香港会计师公会（HKICPA）准则制定部在 2014 年 1 月刊的《HKICPA A-Plus 杂志》中刊发了题为“Application of fair value hierarchy to real estate”的问答文章。该文章阐述的 3 个关键点汇总如下：

- 归入三个层次的公允价值级次并非一项会计政策选择 – 主体需要考虑计算公允价值时所使用的输入值和假设，以确定公允价值计量所属的公允价值级次的适当层次。
- 公允价值归类与估值的质量无关。例如，房地产物业归入第三层次的事实并不意味着房地产的估值不可靠 – 归入第三层次仅仅反映在计算公允价值时运用了不可观察数据及重大判断。
- 鉴于房地产的独特性，在估值时很可能须针对可观察的市场输入值作出重大调整，从而导致公允价值计量被归入第三层次。

请点击 <http://app1.hkicpa.org.hk/APLUS/2014/01/> – 参阅简讯（仅有英文版）。

请参见下文的若干示例。

- 示例 1 – 主体 A 在香港沙田拥有一套公寓式住宅单位。该套公寓单位的公允价值按同一楼宇或附近楼宇内类似单位的近期交易价格计算（如，近期交易价格港币[xx]元/平

方英尺，乘以特定公寓单位的面积[yy]平方英尺）。近期交易价格为可观察输入值。若未对可观察输入值（即，近期交易价格）作出重大调整，则相关公允价值符合归入“第二层次”的条件。然而，若并无足够的类似单位的近期交易可证明该物业存在活跃市场，则归入“第二层次”是不恰当的，而是应将其归入“第三层次”。

- 示例 2 – 相关事实与示例 1 相同，但标的物业位于曾发生“不愉快事件”楼层的几层楼之上。在计算公允价值时，对可观察输入值（即，并非邻近“不愉快事件”楼层的类似物业的近期交易价格）的可能调整幅度在 40%至 70%之间 – 在实务中，由不同评估师执行的估值很可能会存在差异。鉴于这一事实和确定计算公允价值时所作的调整将涉及的重大判断，将公允价值归入“第二层次”是不恰当的，而是应将其归入“第三层次”。
- 示例 3 – 主体 A 在香港金钟拥有一幢商业楼宇（土地及整幢建筑），且在类似物业的市场中没有购买和出售交易。在确定该商业楼宇的公允价值时，主体 A 聘请评估师来确定其公允价值。评估师采用收入资本化法 – 通过参照位于金钟和湾仔的商业楼宇的平均租金收入/租金收益率来估计该商业楼宇的租金收入和租金收益率。鉴于作出该估计可能涉及重大判断这一事实（即，在计算作为资本化率的租金收益率时对其他楼宇的可观察收益率所作的调整），该商业楼宇的公允价值应归入“第三层次”。

如上文所述，公允价值计量的归类将影响主体财务报表所包含的披露。请确保财务报表已作出 HKFRS 13 所要求的适当水平的披露。

联系我们：

若您对上述有关问题有任何疑问，请尽管联系我们。

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