

29 October 2020

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By email

To: Chief Executives of authorized insurers carrying on general insurance business

Dear Sirs,

Applying the provisions of Insurance (General Business) (Valuation) Rules in the valuation of right of use asset and related lease liability

It has come to our attention that there are different market practices among authorized insurers in applying the Insurance (General Business) (Valuation) Rules (Cap.41G) (the “Valuation Rules”) with respect to the determination of the value of a right-of-use (“ROU”) asset and related lease liability. This circular letter is intended to provide general guidance on the application of the Valuation Rules in this regard.

The accounting treatment of a ROU asset and related lease liability is set out in Hong Kong Financial Reporting Standard 16 *Leases*. We understand that there are different interpretations by general insurers as to whether a ROU asset is a tangible or intangible asset. We have consulted the Hong Kong Institute of Certified Public Accountants on the matter and there is at present no consensus on this matter.

Having considered the potential impact on authorized insurers’ solvency positions as a result of the application of the Valuation Rules to the determination of the value of a ROU asset and related lease liability, we are of the view that for the purpose of the Valuation Rules, where the ROU asset arises from a lease agreement entered into by an authorized insurer in respect of any premises used for carrying on insurance business, the value of such asset and the related lease liability would be determined in accordance with Rule 13 (Other asset or liability) of the Valuation Rules.

We believe that this approach will support consistency among authorized insurers with respect to the determination of the value of ROU assets and related lease liabilities under the Valuation Rules, and that it shall take effect on 1 November 2020 in respect to authorized insurers' preparation of the relevant reporting to the Insurance Authority.

Should you have any enquiries in this matter, please contact your case officer.

Yours faithfully,

Tony Chan
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Policy and Development Division
Insurance Authority

c.c. Chairman, The Hong Kong Federation of Insurers
The Hong Kong Institute of Certified Public Accountants