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

By email (winnielam@fstb.gov.hk) and by hand

13 August 2018

Our Ref.: C/TXP, BH41299

Financial Services Branch
Financial Services and the Treasury Bureau
Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Attention: Ms Winnie Lam

Dear Sirs,

Proposed Legislative Amendments on Adoption of Fair Value Accounting for Financial Instruments for Tax Reporting

Thank you for inviting the views of the Hong Kong Institute of Certified Public Accountants ("the Institute") on "**Proposed Legislative Amendments on Adoption of Fair Value Accounting for Financial Instruments for Tax Reporting**" ("the Paper"). The Taxation Faculty ("TF") of the Institute has reviewed the Paper and our views and concerns are summarised below.

1. ***Background of HKFRS 9***

On 24 July 2014, the IASB published the complete version of International Financial Reporting Standard ("IFRS") 9, "Financial instruments", which replaces most of the guidance in International Accounting Standard ("IAS") 39. This includes amended guidance for the classification and measurement of financial assets. It also contains a new impairment model which will result in earlier recognition of losses. The expected credit loss ("ECL") calculation basis under the new impairment model is a response to the lessons learnt from the global financial crisis where the "incurred loss" provisioning model under IAS 39 was considered to have resulted in loan loss provisions that were "too little, too late".

Hong Kong adopted IFRS 9 and the local equivalent is HKFRS 9. HKFRS 9 became effective on 1 January 2018. Adoption of HKFRS 9 by financial institutions would likely result in an increase in accounting provisions, and the regulatory treatment of these provisions will in turn have an impact on banks' regulatory capital positions. For example, HSBC Holdings plc projected the impact of transitioning to IFRS 9 at 1 January 2018 on the consolidated financial statements was a decrease in net assets of US$1,004m[1], arising from:

- a decrease of US$2,232m from additional impairment allowances;
- an increase of US$908m from the remeasurement of financial assets and liabilities as a consequence of classification changes, mainly from

[1] HSBC Holdings plc, Report on Transition to IFRS 9 "Financial Instruments", 1 January 2018

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

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

revoking fair value accounting designations for certain long-dated issued debt instruments; and

- an increase in net deferred tax assets of US$320m.

2. ***Fair value accounting model***

HKFRS 9 requires that financial instruments be recorded at fair value at initial recognition. After the initial recognition, there are three methods for subsequent measurement of carrying values of the financial instruments:

a. Amortized cost
b. Fair value through profit and loss ("FVTPL")
c. Fair value through other comprehensive income ("FVOCI")

It is important to note that financial instruments that would go through subsequent measurement via the amortized cost route are not required to bring the instruments to fair value in the financial statements.

We note that a few principles stated in the Paper are related to the amortized cost model. Therefore, it may be more appropriate to use "Proposed Legislative Amendments on Adoption of HKFRS 9 for Tax Reporting" in future correspondence in relation to this initiative.

3. ***Partial adoption of HKFRS 9 in the tax rules***

We note that the taxation principles in the Paper do not fully conform with the accounting treatments in HKFRS 9. While we appreciate that our existing tax framework may make full conformity to the accounting treatments in HKFRS 9 difficult, deviations from the guiding principles in HKFRS 9 should be consistently applied under all scenarios.

We have highlighted concerns in more detail on certain principles in the Appendix for your consideration. As indicated, we would appreciate it if certain principles in the Paper can be clarified.

In addition, a lot of technical terminology has been used in the Paper. While we can find most of these terms used in the Paper in the relevant accounting standards, people without a good knowledge of these standards would find the Paper difficult to understand. Therefore, clear definitions and explanations should be included in the Bill. Moreover, the Inland Revenue Department ("IRD") should update its Departmental Interpretation and Practice Notes 42 ("DIPN 42") to provide detailed guidance to taxpayers on how these new principles work in practice. The Inland Revenue Authority of Singapore ("IRAS") e-Tax Guide, *Income Tax Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments*, serves as a good reference to taxpayers on tax issues in relation to adoption of IFRS 9 in Singapore. Perhaps, the IRD can make reference to the IRAS e-Tax Guide when updating DIPN 42.

4. ***Remeasurement of value of financial instruments after initial recognition***

It is a requirement under HKFRS 9 that financial instruments that are classified under the amortized cost route and debt instruments that are classified under

FVOCI route be accounted for at fair value at initial recognition and ECL be reflected in the financial statements in the subsequent reporting periods.

It is a reasonable expectation to ask taxpayers to conduct impairment tests on each financial instrument when preparing the financial statements and also the corresponding tax computations. Making reference to the Singapore experience, IRAS requires taxpayers to perform credit impairment tests on an individual asset basis.

Despite the above, there are circumstances where the entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instruments becomes past due. For example, there is little or no updated credit risk information that is routinely obtained and monitored on a retail loan until a customer fulfils the contractual terms under the amortized cost model.

HKFRS 9 allows an entity, in some circumstances, measuring lifetime ECL on a collective basis based on the comprehensive credit risk information when the entity does not have reasonable and supportable information available without incurring undue costs or effort in measuring lifetime ECL on an individual instrument basis.

In view of the above, the tax system should also cater for those taxpayers who opt to be taxed based on HKFRS 9 but conduct the impairment test on a collective basis.

5. ***Relationship between the new taxing rules and Section 16(1)(d) of the Inland Revenue Ordinance***

Section 16(1)(d) in the Inland Revenue Ordinance ("IRO") is the specific provision that deals with the deduction of bad and doubtful debts. Section 16(1)(d) provides for the deduction of "bad debts incurred in any trade, business or profession, proved to the satisfaction of the assessor to have become bad during the basis period for the year of assessment, and ***doubtful debts to the extent that they are respectively estimated*** to the satisfaction of the assessor to have become bad during the said basis period notwithstanding that such bad or doubtful debts were due and payable prior to the commencement of the said basis period" [emphasis added].

Allowing only ECL that is credit-impaired as a tax deduction, as currently proposed in the Paper, does not seem to be in line with "doubtful debts to the extent that they are respectively estimated" in Section 16(1)(d) of the IRO. It is worth noting that the measurement of ECL allowances under the three stages reflects the probability of default. Therefore, ECL allowances shown in the financial statements should be considered as a reasonable estimate of the doubtful amount charged to the profit and loss account.

Making reference to the Singapore taxation rules, ECL allowances made under stage 1 and 2 by financial institutions are tax deductible on the condition that the amount does not exceed the cap under section 14I of the Income Tax Act (i.e., Provisions by banks and qualifying finance companies for doubtful debts and diminution in value of investments**)** and such allowances are required by the

Monetary Authority of Singapore. The UK tax authority, Her Majesty's Revenue and Customs, also allows financial institutions to claim the increased ECL allowances upon first adoption of IFRS 9 as tax deductible over 10 years. Also, ECL allowances made in different stages in subsequent years are tax deductible.

Therefore, we are of the view that tax deductibility of the ECL allowances made in stage 1 and 2 of the three stage model should be reviewed and special tax treatments for ECL allowances for financial institutions may be warranted.

We also note that it is a usual practice of the IRD to request that the taxpayers provide documentary evidence to substantiate the deduction claims on bad and doubtful debts. The IRD would normally ask whether the taxpayer had taken active action to recover the bad and doubtful debts. If the taxpayer has not taken any positive action to recover the debts, the IRD may disallow the deduction claims. However, even for ECL allowances that have been credit impaired, taking recovery action may not be a pre-requisite for making ECL allowances in stage 3 (please refer to the comments on principle 7 of the Appendix for more details). It is not clear from the Paper if a new deduction provision will be introduced into the IRO for deduction of ECL allowances. If not, Section 16(1)(d) and DIPN 42 should be revised to cater for the features of ECL allowances.

In addition, the taxpayers and their auditors should have conducted a thorough review of ECL before finalizing the audited financial statements. The IRD should provide detailed guidelines to the taxpayers as to what information and disclosures should be made at the return filing stage so as to avoid unnecessary exchanges of correspondence on tax deduction claims for ECL or provision for bad and doubtful debts.

More detailed comments on individual principles in the Paper can be found in the Appendix. Should you have any questions on this submission, please contact Eric Chiang, at 2287-7075 or ericchiang@hkicpa.org.hk, or myself at 2287-7084 or peter@hkicpa.org.hk.

Yours faithfully,

Peter Tisman
Director, Advocacy & Practice Development

PMT/EKC/pk

Appendix - Comments on the Key Features of Proposed Legislative Amendments on Adoption of Fair Value Accounting for Financial Instruments for Tax Reporting

(1) An election for fair value accounting for tax reporting, once made, should be irrevocable and shall have effect for the year in which the election is made and all subsequent years of assessment.

(i)	Allowing taxpayers to elect to be taxed based on fair value accounting would hopefully save their time in completing the tax computation as taxpayers would otherwise spend a lot of time in preparing reconciliation schedules on a realization basis for the relevant items.
(ii)	Making the election irrecoverable would promote consistency in tax treatments and save administrative time and cost of the IRD dealing with election revocations. However, it is not uncommon for groups to adopt consistent accounting and tax policies for companies in the same group. Therefore, if the shareholding structure of the taxpayer changed as a result of a merger and acquisition, the acquirer company may wish to revoke the election made by the acquiree company if the group is not taxed on a fair-value-accounting basis. To this end, it would be advisable to provide an escape clause in the legislation to authorize the Commissioner of Inland Revenue to allow revocation of the election when there are good commercial reasons for doing so.

(2) Where an election for fair value accounting for tax reporting is made for a year of assessment, any amounts which would have been brought into account for computing the assessable profits or losses for the basis period for any year of assessment preceding that year, had the assessable profits or losses been calculated on fair value accounting basis, will be brought into account for computing the assessable profits or losses for that year.

No comment.

(3) Fair value accounting for tax reporting does not apply to any profit, gain, loss, income or expense that is capital in nature.

(i)	This is in line with Section 14 of the IRO.
(ii)	If we can assume from this principle that taxation on the basis of fair value accounting would apply to profit, gain, loss, income or expense that is onshore and revenue in nature, it would be reasonable to expect that an amount that is onshore and revenue in nature, and which is charged to the profit and loss account, would be taxable or deductable for tax purposes.

(4) Any amount of profit, gain, loss, income or expense in respect of a loan for which no interest is payable will be disregarded.

(i)	If the loan does not generate any interest income to the lender, the loan itself is not an income-producing asset, it is therefore reasonable that any amount of profit, gain, loss, income or expense in respect of this loan be disregarded.
(ii)	Despite of the view expressed above, the definition of “loan” should be clearly defined in the Bill. For example, if a financial institution granted an interest bearing loan to its client but the client failed to make interest payment when it was due, would the interest element be regarded as a constituent part of the original loan? The interest element is arguably a separate financial instrument

by itself. If the interest element were regarded as a separate financial instrument and the borrower was not required to pay any further interest on the defaulted interest, would the interest element be regarded as a separate interest-free loan such that the subsequent write off of the interest receivable would be disallowed for tax purposes?

(5) If the lender and borrower of a loan did not deal with each other at arm's length, the interest income chargeable to tax and the interest expense allowable as a deduction are the amounts of such income and expense that are computed at the applicable interest rate specified in the financial instrument and not at the effective interest rate.

(i) The interest element calculated under the effective interest rate method may contain an imputed amount but the interest receivable by the taxpayer would be calculated based on the contractual interest rate.

(ii) "Arm's length" is a term frequently used in the transfer pricing context, where arm's length pricing is an acceptable range instead of a fixed point of pricing, whereas, interest calculated under the effective interest rate method is based on a fixed price on initial recognition of a financial instrument. The principle suggests that if the contractual interest calculation does not coincide with the calculation based on the effective interest rate, the loan arrangement does not follow the arm's length principle. In fact, arm's length provision is defined in Section 50AAC of the IRO. Section 50AAF, transfer pricing rule 1, of the IRO empowers the IRD to make adjustments on related party transactions that have not been concluded based on the arm's length principle. If interest is charged on a cross-border inter-company loan within a group at a rate other than the effective interest rate, but the interest charged is perceived to be acceptable in market terms, will the IRD invoke Section 50AAF to impose a tax adjustment on the taxpayer on the grounds that the loan has not been priced on an arm's length basis?

(iii) In view of the above, if the tax treatment has to deviate from the accounting treatment under HKFRS 9, perhaps the contractual interest rate should simply be used in calculating the taxable or deductible amounts; and the tax treatment for premium, discount and transaction fees should follow the tax rules for those who have not opted to be taxed on a fair value accounting basis.

(6) Any amount of profit, gain, loss, income or expense in respect of a hedging instrument acquired under a bona fide commercial arrangement for the sole purpose of hedging against any risk associated with the underlying asset or liability will be disregarded, if the underlying asset or liability is employed or intended to be employed as capital.

As the underlying asset or liability is capital in nature, it is reasonable to disregard income and expenses on the hedging arrangements in relation to this asset or liability.

(7) Expected credit losses of a financial instrument which are not credit-impaired will be disregarded.

(i) This treatment seems to be inconsistent with the accounting treatments under HKFRS 9 because:

a. HKFRS 9 requires that financial instruments be recorded at fair value at initial recognition. Whereas, there are three bases for subsequent measurement of carrying values of the financial instruments:

- Amortized cost
- FVTPL
- FVOCI

b. Subsequent measurement of financial instruments under amortized cost and FVTPL; and debt instruments under FVOCI would have an impact on the profit and loss account. It is not unreasonable to expect that the income and charges through profit and loss on subsequent measurement of financial instruments which are onshore and revenue in nature be taxable and deductible respectively.

c. A "three stage" model for carrying value evaluation is used under HKFRS 9 where ECL under each stage would be charged to the profit and loss account.

Stage of credit impairment	Characteristics of financial assets	Time horizon for ECL
Stage 1	Not credit-impaired (credit risk has not increased significantly since initial recognition)	12 months
Stage 2	Not credit-impaired (credit risk has increased significantly since initial recognition)	Lifetime
Stage 3	Credit-impaired	Lifetime

Under the three-stage model, “credit-impaired” means the underlying financial instrument reach stage 3 of the model.

d. According to HKFRS 9, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused financial assets to become credit –impaired.

e. As per paragraph 13 of the DIPN 42, ***loans and receivable and held-to-maturity investments*** under HKAS 39, the gain or loss is taxable or deductible when the financial asset is derecognized or impaired and through the amortization process. It appears that the rule of thumb for an item to be taxable or deductible under DIPN 42 is whether the relevant amount had been charged to the profit and loss account. However, principle (7) would disregard the amount charged to the profit and loss account when ECL allowances are made under stage 1 or 2. One may argue that the credit-impairment basis changed to a more forward looking approach in HKFRS 9; and therefore ECL that is credit impaired (i.e. under phase 3) is equivalent to impairment made in HKAS 39. However, only allowing credit-impaired financial instruments to be deducted for tax purposes does not appear to be in line with the tax treatment in DIPN 42. We believe that the following points are supportive factors for allowing ECL allowances made in stage 1 and 2 to be tax deductible:

- Measurement of ECL allowances under the three stages reflects the probability of default. Hence, ECL allowances under stage 1 and 2 are not made on an arbitrary basis. The credit impairment evaluation can be done on an individual financial instrument basis. Therefore, it is not unreasonable to conclude that ECL allowances made under stage 1 and 2, where impairment test is done on an individual asset, are not general provisions for bad debt.
- It is difficult to do an exact mapping on the classification of assets under HKAS 39 and HKFRS 9. Financial assets that were re-measured under the amortization model under HKAS 39 would not necessarily be classified under financial assets that are required to be re-measured at amortized cost. Depending on the circumstances, these assets could possibility be re-measured by FVTPL. Bringing the financial instrument to market value by FVTPL at re-measurement would have profit and loss account impacts; and such impacts would be taxable or deductible. As the underlying assets are the same, it is unreasonable that mark-to-market charges under FVTPL is tax deductible but stages 1 and 2 amortization allowances are not.
- If there is significant financing component in the trade receivables, contract assets and lease receivables, HKFRS 9 actually allows entities to take a simplified approach for measuring ECL for these financial instruments at the lifetime horizon, such that the ECL allowances would not be attached to any particular stage of the 3 stage model. It is unclear from the Paper whether ECL allowances made under this simplified approach would be tax deductible. On the assumption that ECL allowances under the simplified approach are tax deductible, and applying principle (7), accelerated tax deduction would result when compared with those entities that have not adopted the simplified approach.
- The Hong Kong Monetary Authority consulted the banking industry in March 2017 on the regulatory treatment of provisions under HKFRS 9. The proposals made in the consultation are currently enforceable. In the overview section of the consultation paper, it states that:
  "the new accounting standard is expected to result in an increase in accounting provisions, and the regulatory treatment of these provisions will in turn have an impact on banks' regulatory capital positions. The Basel Committee on Banking Supervision ("BCBC interim treatment"), under which the current classification of banks' provisions into general provisions ("GP") and specific provisions ("SP") and their respective capital treatment will remain". It was proposed in the consultation paper that impairment charges made under stages 1 and 2 would be classified as GP and impairment charges made under stage 3 would be classified as SP. Both GP and SP are relevant in the calculation of tier 1 and tier 2 capitals and the capital adequacy ratio of financial institutions. All initiatives had

been finalized and implemented as proposed in the consultation paper on 1 January 2018. Hence, making allowances for ECL is not only for compliance with HKFRS 9, it is also a regulatory requirement for financial institutions in Hong Kong.

- HSBC Holdings plc projected the impact of transitioning to IFRS 9 at 1 January 2018 on the consolidated financial statements was a decrease in net assets of US$1,004m[2], arising from:
  - a decrease of US$2,232m from additional impairment allowances;
  - an increase of US$908m from the re-measurement of financial assets and liabilities as a consequence of classification changes, mainly form revoking fair value accounting designations for certain long-dated issued debt instruments; and
  - an increase in net deferred tax assets of US$320m.
- The UK tax authority, Her Majesty's Revenue and Customs, allows tax deduction of the additional impairment allowances on first adoption of IFRS 9 over 10 years where the additional impairment allowances are coming from all three stages of the impairment model. Tax treatment of ECL allowances would follow the accounting treatment for the year of first adoption and subsequent years.
- Singapore adopts an approach that only credit-impaired ECL would be allowed for tax deduction. However, special rules as follow apply to financial institutions[3].

  For financial instruments on revenue account, in respect of banks, merchant banks and qualifying finance companies:
  - the sum of impairment losses on non-credit impaired financial instruments recognized under FRS 109 (i.e. HKFRS 9 equivalent in Singapore) in the profit and loss account plus any additional impairment amounts for non-credit-impaired exposures as required by the Monetary Authority of Singapore, up to the maximum amount as allowable under section 14I of the Income Tax Act, are tax deductible.
  - Impairment gains on non-credit-impaired financial instruments, to the extent that the amount was previously allowed as a deduction, are taxable. Indexation is not required.

(8) When an equity instrument on revenue account of a person that is measured at fair value through other comprehensive income is disposed of, any gain to the person on such disposal is chargeable to tax, and any loss to the person on such disposal is to be allowed as a deduction.

(i) The carrying value of equity instrument would be the fair value of the instrument. As there is no impact to the profit and loss account on the subsequent measurement of the instrument, no tax adjustment should be made in the tax computation when the accounting entries are made in other comprehensive income during subsequent measurement. Therefore, the taxable or deductible amount should be calculated by reference to cost of the

[2] HSBC Holdings plc, Report on Transition to IFRS 9 "Financial Instruments", 1 January 2018
[3] IRAS e-Tax Guide, Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments, Inland Revenue Authority of Singapore

instrument on initial recognition rather than carrying amount of the instrument at the date of disposal.
(ii) The Bill should clearly state the calculation basis.

(9) In a case where –

(a) a person issues debt securities at a discount or redeems issued debt securities at a premium;

(b) the debt securities were issued with an embedded derivative to acquire shares or units in the person; and

(c) the outgoing represented by such discount or premium is deductible,

such part of the outgoing attributable to the embedded derivative is not deductible.

It is our understanding from our recent meeting with the IRD that this principle relates to a typical convertible bond which contains both a liability and equity component under HKAS 32. However, the above wording is difficult to understand. Reference should be made to paragraphs 28 to 31 of HKAS 32 *Financial Instruments: Presentation* on the wording in this principle. However, it is not clear from the above principle what the tax treatment would be like for other variance of convertible bonds.

(10) Where a financial instrument on revenue account of a person (being a financial liability measured at fair value through profit or loss) matures or is sold, bought back or redeemed, any gain to the person that is realized (being a gain that is recognized in other comprehensive income) is chargeable to tax, or any loss to the person that is realized (being a loss that is recognized in other comprehensive income) is to be allowed as a deduction.

Though assets that would be re-measured under the amortized cost approach are not intended to be sold before maturity, the asset classification would not stop the entities from selling the financial instruments. Therefore, there should be provision in the Bill dealing with disposal of financial instruments that are subject to re-measurement under the amortized cost model.

(11) Any payment made in respect of a preference share that is treated as a debt instrument is not deductible.

As "debt instrument" is not defined in HKAS 32, a clear definition of "debt instrument" should be included if the term is used in the Bill.

(12) In applying fair value accounting for tax reporting to a financial instrument which is measured at **amortized cost** or **fair value through other comprehensive income** –

(a) where a person derives interest from a financial instrument, the interest that is chargeable to tax is the amount recognized in profit or loss at the effective interest rate;

(b) where any interest upon any money borrowed which is payable on capital employed in the production of any profits chargeable to profits tax, the interest expense recognized in profit or loss at the effective interest rate is allowed as a deduction;

(c) where a person derives a gain from discounts or premiums on debt securities, the gain chargeable to tax is the amount recognized in profit or loss at the effective interest rate;

(d) where a person issues debt securities at a discount or redeems issued debt securities at a premium, and the debt securities related to any capital employed in the production of any profits chargeable to profits tax, the amount allowed as deduction is the discount or premium recognized in profit or loss at the effective interest rate.

No comment

(13) In applying fair value accounting for tax reporting to a financial instrument which is measured at **fair value through profit or loss -**

(a) where a person derives interest from a financial instrument, the interest that is chargeable to tax is the amount recognised in profit or loss;

(b) where any interest upon any money borrowed which is payable on capital employed in the production of any profits chargeable to profits tax, the interest expense recognised in profit or loss is allowed as a deduction;

(c) where a person derives a gain from discounts or premiums on debt securities, the gain chargeable to tax is the amount recognised in profit or loss;

(d) where a person issues debt securities at a discount or redeems issued debt securities at a premium, and the debt securities related to any capital employed in the production of any profits chargeable to profits tax, the amount allowed as deduction is the discount or premium recognised in profit or loss.

No comment

(14) In a case where –

(a) a loan is transferred by a person (being a financial institution) (**transferor**) to another person (**transferee**);

(b) a provision for an expected credit loss arising from that loan which is credit-impaired is also transferred by the transferor to the transferee; and

(c) a deduction of an amount in respect of a provision for a doubtful debt arising from that loan was previously allowed to the transferor,

then –

(i) in a case where both the transferor and the transferee are in the business of the lending of money on the date of the transfer, the deduction previously allowed to the transferor is treated as having been allowed to the transferee; and

(ii) in any other case, the provision is treated as a trading receipt of the transferor for the basis period in which the date of transfer falls.

The basis of calculation of the transfer consideration is not clearly stated in this principle. There would not be tax implications for transfer between financial institutions. However, if the transferee is not a financial institution, it appears that the original credit-impaired amount in the hands of the transferor would disappear in the calculation. Therefore, clarification of this principle is required.