

4 October, 2010

The Second Asian-Oceanian Standard Setters Group Meeting - Communiqué -

On 29 and 30 September 2010, the second meeting of the Asian-Oceanian Standard Setters Group (AOSSG) was held at the Akihabara Convention Hall in Tokyo. The meeting was hosted by the Accounting Standards Board of Japan (ASBJ), and attended by twenty-four accounting standard setting bodies from countries or jurisdictions in the Asian-Oceanian region as well as representatives of the International Accounting Standards Board (IASB) and a Trustee of the International Financial Reporting Standards Foundation. The participating organizations are from Australia, Brunei Darussalam, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Thailand, Turkey, Uzbekistan and Vietnam. The accounting standards setting bodies from eight countries or jurisdictions were confirmed as new members of the AOSSG at this meeting.

As agreed at the inaugural meeting last year, the objectives of the Group are to:

- (a) Promote the adoption of, and convergence with, International Financial Reporting Standards (IFRSs) by jurisdictions in the region;
- (b) Promote consistent application of IFRSs by jurisdictions in the region;
- (c) Coordinate input from the region to the technical activities of the IASB; and
- (d) Cooperate with governments and regulators and other regional and international organisations to improve the quality of financial reporting in the region.

To achieve these objectives, the AOSSG established working groups to formulate the views for respective areas, which were commensurate with the subject areas of work that the IASB has been undertaking. Nine working groups have been playing an active role on areas such as consolidation, emission trading, fair value measurement, financial instruments, financial statement presentation, insurance contracts, Islamic finance, leases, and revenue recognition.

At the start of the meeting, Mr. Shozo Azuma, the Senior Vice Minister of cabinet office for Financial Services delivered the keynote speech, noting the importance of having greater coordination among the Asian-Oceanian standards setters in the development of the IFRSs. Sir David Tweedie, the chairman of the IASB expressed his appreciation of the continued efforts of the AOSSG, commenting that he strongly believes that the inputs from the region should be given more weight, considering the strong economic

growth and developments throughout the region.

During the administrative discussion, Mr. Ikuo Nishikawa, Chairman of the Accounting Standards Board of Japan (ASBJ) and Mr. Kevin Stevenson, Chairman of the Australian Accounting Standards Board (AASB) were respectively elected as a chairman and vice-chairman of the AOSSG for the next one year. In his inaugural remarks as Chairman of the AOSSG for the next one year, Mr. Nishikawa affirmed his commitment to the continued effort in respect of inputs for the developments of the IFRSs as well as promotion of greater communication among the members, while noting his desire to formulate the strategy of the AOSSG in moving the way forward.

In addition, the AOSSG agreed to set up a “Chairman’s Advisory Committee”, which will provide administrative assistance to the Chairman and Vice Chairman, and cater for the needs of timely reactions to issues that are not covered by the working groups. The AOSSG also decided to develop its web-site, so as to raise its awareness. The web-site will be available to the public shortly.

During the technical sessions, the AOSSG members provided feedback and comments to the IASB’s existing projects. The representative from the IASB thanked the AOSSG for their insightful comments, and acknowledged that they will give due consideration to the suggestions. The composition of the respective working groups as well as a summary of the discussion at the meeting is listed in the Appendix.

The AOSSG also had a discussion about its future projects, taking into account the results of the survey, which was conducted to collect the members’ situation regarding convergence with or application of IFRSs as well as to identify possible future issues of the group. Based on the discussion, the AOSSG decided to establish a new working group on IAS41 “Agriculture” which will be led by the Accounting Standards Board of India.

The third AOSSG meeting will be held in Australia in autumn next year.

*****End*****

Summary of discussion at the second AOSSG meeting

1. Consolidation

The working group (WG) expressed support for the IASB's effort to develop a consolidation model based on a single principle of control that is applicable to all entities. Yet, it emphasised the need to have clear guidance on application and urged the IASB to retain in the final standard, the use of "Risk and Reward" and "Auto-pilot mechanism" as possible indicators of control.

While in agreement in principle with the concept of a "dominant shareholder" exerting control without a majority of equity interest, the WG expressed concern over the difficulties in obtaining evidence of control that is premised on the future action or inaction of numerous other minority shareholders. The WG thought the potential inconsistencies might result in less decision-useful information. It also recommended that the IASB review its proposed criteria concerning investment entities and to extend the limited scope exception in consolidation to the parent company accounting of investment entities.

WG: Singapore (lead), China (co-lead), Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Sri Lanka, Thailand, Uzbekistan

2. Emission Trading

The WG presented the result of the survey conducted among the AOSSG members, which questioned the accounting practices in each country as well as members' views on accounting issues of emission trading schemes (ETS). After the presentation, the members had a brief discussion on some accounting issues.

In addition, the WG suggested that the IASB should accelerate the development of the accounting standard of ETS, taking into account that there is no authoritative guidance that deals specifically with the issue. The WG also suggested that the IASB should expand the scope of the ETS standard, considering the importance of the accounting issues arising from other schemes such as the CDM programs in which developing countries are often involved, and to revise other relevant standards, such as IAS20 as well.

WG: China (lead), Japan (co-lead), Korea

3. Fair Value measurement

The WG expressed its general support for the current proposals in the staff draft of the forthcoming IFRS, except for the measurement uncertainty analysis disclosure. The AOSSG members encouraged the IASB to redeliberate the unit of account requirement, the highest and best use notion, and the presentation of financial instruments measured on a net basis, etc.

The WG also expressed great concerns over the operational challenges for fair value measurement. The WG felt that converging on high-level principles related to defining fair value does not go far enough, and permitting different applications of fair value in different jurisdictions will impair the quality of fair value information. The members, therefore, urged the IASB to provide more guidance on the application of the standard. The members also encouraged WG to actively make efforts to contribute to the development of the forthcoming IFRS on Fair Value Measurement, so as to facilitate the application of or convergence with the standard in the region.

WG: China (lead), Hong Kong, Japan, Korea, Malaysia

4. Financial Instruments

The AOSSG members and the IASB representatives discussed issues arising from, and since, submissions by the AOSSG on:

- (a) IASB ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*;
- (b) IASB ED/2010/4 *Fair Value Option for Financial Liabilities*; and
- (c) IASB Request for comment on the FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

The IASB representatives specifically commented on matters they had noted in the AOSSG submissions.

The WG posed various questions to the AOSSG members and the IASB representatives on which assistance from the IASB would facilitate the preparation of planned submissions. The IASB representatives agreed to assist on these questions.

The AOSSG members and the IASB representatives also discussed issues arising from the IASB's discussions on hedge accounting in preparation for the planned release of an ED later this year.

WG: Australia (lead), China, Hong Kong, Japan, Korea, Malaysia, New Zealand, Singapore

5. Financial Statement Presentation

The WG presented their comments upon the IASB staff draft of the Exposure Draft. Among others, the WG discussed seven key issues, which are (1) Operating and investing category, (2) Operating finance subcategory, (3) Direct and indirect methods of cash flow statement, (4) Reconciliation of income to cash flows, (5) Multi-category transaction, (6) Cash and cash equivalents, and (7) Disclosure of operating income. The AOSSG members encouraged the WG to continue working on the issues, so as to contribute to the development of the IFRS project in the region.

Some WG members expressed concerns over the dramatic changes made to the statements format which is not operational, and its cost might outweigh the benefit.

WG: Korea (lead), China (co-lead), Australia, Hong Kong, Iraq, Japan, Macao, Malaysia, New Zealand

6. Insurance

The WG expressed its support for the IASB issuing a high quality global standard on Insurance contract. Among others, the AOSSG members discussed (1) Two Margin Approach vs. Single Margin Approach, (2) Discount Rate, (3) Acquisition costs, (4) Premium Allocation Approach, (5) Financial instruments with discretionary participation features, (6) Presentation, and (7) Transition; and encouraged the IASB to further deliberate on these issues. The members also encouraged the WG to work further in the development of the forthcoming IFRS on insurance contract, so as to facilitate the application of IFRS in the region.

WG: Korea (lead), China (co-lead), Australia, Hong Kong, Indonesia, Japan, Malaysia, Nepal, Thailand

7. Islamic Finance

Considering that the provisions covering Islamic financial transactions may differ from IFRSs in some countries, the WG conducted research as to the reasons for the differences as well as to identify specific IFRS requirements which are of some concern to these jurisdictions. A research paper summarizing the WG's findings was presented at the meeting, which provided an overview of the differing views on accounting for Islamic transactions, and brief discussions of fifteen (15) specific issues identified by the working group. Through the exercise, the WG concluded that in promoting the use of IFRSs across the region, the IASB need to take into consideration that due to differing interpretations of Islamic law, there are stakeholders who may disagree with the application of some IFRS requirements to Islamic financial transactions.

The AOSSG members noted that there may also be concerns about how these issues may impact a country's full adoption of IFRSs given the increasing significance of Islamic Finance. The WG will now focus on looking at the new Exposure Drafts, and examine its impact on Islamic Finance, conduct a survey on how member countries will deal with convergence issues and perform some "outreach" activities to selected regions to obtain a better understanding of practitioners' issues.

WG: Malaysia (lead), Australia, Dubai, Indonesia, Korea, Pakistan, Saudi Arabia

8. Leases

Whilst the WG expressed general support for the IASB's proposals regarding leases as set out in its ED/2010/8 *Leases*, it, however, has some comments or concerns regarding certain areas. Specifically, the WG is of the view that a single approach should be adopted for lessor accounting to ensure consistency in application and to be in line with lessee accounting model. In a move to reduce complexity, the WG believed that it is not necessary to have separate requirements for contracts that represent purchases or sales of the underlying asset and that the "most likely" approach should be adopted to measure lease payments.

The WG also emphasized on the need for substance over form in its proposed recommendation to the IASB regarding purchase option and contracts with service and lease components. Finally the WG recommended that all investment properties should be scoped out and be dealt with under IAS 40 and that sufficient transition time be given for countries to implement these proposed changes.

WG: Singapore (lead), Indonesia (co-lead), Australia, China, Hong Kong, Japan, Korea, Macau, Malaysia, Nepal, New Zealand, Pakistan, Sri Lanka, Thailand, Uzbekistan

9. Revenue Recognition

The WG expressed general support with the proposals in the ED/2010/6 *Revenue from Contracts with Customers*. It, however, has some comments/concerns as follows:

- (a) The practical difficulties in applying the distinct concept especially in the context of highly customised services, and to exclude the need to consider the business practices of other entities when applying the distinct concept;
- (b) The need to refine and strengthen the existing indicators showing the passage of control both for continuous and at a point in time from one party to another, in the context of a collective control situation (especially from one party to multiple parties), and for long term and service contracts;
- (c) The debate over whether customer's credit risk should be recognised as an impairment of the receivable instead of being adjusted against revenue; and

(d) The need to refine the transaction-price-allocation method to take into account an entity's pricing strategies

Key issues on the above topics were discussed among the AOSSG members and the IASB representatives.

WG: Japan (lead), Singapore (co-lead), Australia, China, Indonesia, Hong Kong, Macau, Malaysia, New Zealand