

Communiqué – November 2011

On 23 and 24 November 2011, the third annual meeting of the Asian-Oceanian Standard-Setters Group was held at the Park Hyatt in Melbourne, Australia. The meeting was hosted by the Australian Accounting Standards Board (AASB) and attended by 21 member standard setters as well as representatives of the International Accounting Standards Board (IASB) and representatives of the International Financial Reporting Standards Foundation.

The participating standard setters were from Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Korea, Macao, Malaysia, Nepal, New Zealand, Pakistan, the Philippines, Saudi Arabia, Singapore, Thailand and Vietnam.

The Chair of the Australian Financial Reporting Council (FRC), Lynn Wood, opened the meeting. Ms Wood noted the positive contributions that the AOSSG has already made to global standard setting by sharing views among the members and with the IASB and emphasised that every member of the AOSSG has a responsibility to develop standard setting in their own jurisdiction and also to assist in developing standard setting in the jurisdictions of the other members.

The outgoing Chair of the AOSSG, the Chair of the Accounting Standards Board of Japan (ASBJ), Ikuo Nishikawa, noted the progress that had been made in consolidating the AOSSG's activities and establishing the Group's reputation over the past year.

The Chair of the AASB, Kevin Stevenson, was confirmed as Chair of the AOSSG and the election of the Chair of the Hong Kong Institute of CPAs (HKICPA) Financial Reporting Standards Committee, Clement Chan, as the Vice Chair of the AOSSG was ratified at the meeting. Mr Stevenson thanked Mr Nishikawa and the ASBJ for the outstanding work done as the Chair and the Secretariat for the AOSSG over the past year.

The IASB Chairman, Hans Hoogervorst, expressed the IASB's appreciation for the ongoing efforts of the AOSSG in promoting debate on financial reporting issues in the Asia-Oceania region and enhancing the contributions from the region to the IASB's due process.

Mr Hoogervorst noted that the IASB and International Federation of Accountants have agreed to strengthen their co-operation in developing private and public sector accounting standards in the form of a Memorandum of Understanding. He noted the focus is on achieving greater consistency across accounting standards in both sectors.

IASB members provided an update on recent activities, including in particular, progress on the Financial Instruments, Revenue Recognition, Leases and Insurance Contracts projects.

Technical Agenda

During the technical sessions AOSSG members and IASB representatives engaged in active discussion of current issues being deliberated by the IASB and on emerging issues facing financial reporting, particularly affecting the Asian-Oceanian region.

IASB Future Agenda

The meeting discussed the draft AOSSG comment letter in response to the IASB's Request for Views *Agenda Consultation 2011*. Members commended the IASB for providing the opportunity to identify projects for the IASB's future agenda.

Members broadly agreed on the top three priorities to the region, including the completion of the IASB's Conceptual Framework project, and strongly encouraged the IASB to focus on a limited number of projects at any particular time in order to make effective progress. In addition, members suggested that the IASB clarify its working arrangements with other standard setters before deciding its future agenda.

AOSSG Vision Paper

Members discussed the way forward for the AOSSG in the context of the framework provided by the AOSSG Vision Paper. In particular, among other things, members noted the importance of research activities, and discussed how such activities can be most effectively undertaken by AOSSG members.

Revenue from Contracts with Customers

The meeting discussed the recently issued IASB Exposure Draft ED/2011/6 *Revenue from Contracts with Customers*. Members highlighted the following potential issues regarding the ED/2011/6 proposals:

- the clarity of the guidance on whether control of a good or service is transferred to a customer over time (and hence revenue is recognised over time);
- the constraints on recognising variable margins within a single performance obligation satisfied over time (e.g., in some construction contracts);
- the requirement to present the estimated uncollectible amount of revenue as a separate line item adjacent to the revenue line item; and
- the 'reasonably assured' constraint on recognising revenue in contracts with variable consideration.

Insurance Contracts

The Working Group (WG) presented an update on the IASB's thinking on insurance contract accounting since the release of IASB ED/2010/8 *Insurance Contracts*. The update included: the scope of the project, the building block approach, the tentative decisions reached to date in which the IASB is considering dealing with volatility, short duration contracts, presentation and transition and effective date. There was an active exchange of views on scope, unlocking residual margins, unbundling and presentation.

Financial Instruments

The meeting discussed issues arising from the IASB's deliberations on impairment of financial assets measured at amortised cost including concerns about the application of the 'three-bucket approach', in preparation for the planned release of a revised IASB ED early next year.

The meeting noted the current status of the hedge accounting work of the IASB in anticipation of the IASB's staff draft on general hedge accounting and an expected IASB ED on macro hedge accounting.

The meeting also noted the scope of potential changes to the financial asset classification and measurement requirements of IFRS 9 *Financial Instruments* and discussed the merits of those changes.

Investment Entities

The meeting discussed the mixed views of the WG on the IASB's proposal to introduce an exception to the consolidation principle in respect of investment entities.

Members supporting the exception highlighted certain concerns for further consideration by the IASB, such as reviewing the appropriateness of the pooling of funds criterion as there is no basis in principle for excluding a single-investor entities from being investment entities, and allowing the exception to consolidation to flow through to the non-investment entity parent of investment entities. Others expressed concern about diverging from the concept of control and whether the criteria for investment entity are robust enough to prevent abuse.

Agriculture

AOSSG members discussed the WG's proposal, recently submitted to the IASB, to make a limited revision to IAS 41 *Agriculture*, specifically on bearer biological assets. The IASB members present tentatively expressed their support for considering the limited revision. It

was also noted the WG will begin considering a long-term research project that would involve performing a comprehensive review of IAS 41.

Islamic Finance

The WG presented the result of a recent survey on Islamic finance and noted some of the salient features of Islamic finance that may need to be considered when the IFRSs are being developed. In this regard, the WG suggested an Islamic Finance Advisory Group be established to provide input to the IASB and assist in the development of IFRSs.

Emission Trading Schemes

The WG presented on some tentative conclusions it had reached in its research project on emission trading schemes (ETSs). It was noted that jurisdictions in the Asian-Oceanian region are increasingly introducing ETSs.

The WG emphasised the need for a global accounting standard on the subject and urged the IASB to accelerate its ETS project. It also noted the IASB would need to take into account various types of ETSs now operating in different jurisdictions in developing a standard. The WG will continue its in-depth research with a view to resolving relevant issues.

Foreign Currency

The AOSSG members discussed a proposal for a limited scope amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates* to add requirements addressing rare circumstances where the closing spot rate does not represent a best estimate. A number of members encouraged the Korean Accounting Standards Board to further develop the proposal and raise the issue to the IASB for consideration.

Leases

The AOSSG shared the following preliminary views on the IASB's key tentative decisions to-date:

- The “receivable and residual” lessor accounting model received broad support from most members. However, further clarification is required on the nature of residual asset and how this reconciles with the proposed measurement of the asset.
- Some members continued to express support for a hybrid lessee/lessor accounting model as a single model would not properly reflect the economics of some leasing arrangements.
- Most members welcomed the exclusion of leases of investment properties from the scope of lessor accounting.

- Some members opposed the exclusion of certain contingent rentals from the measurement of lease receivables and liabilities.
- Some members continued to urge the IASB to consider broadening the definition of short-term leases on cost-benefit grounds.

Discount Rates

HKICPA and AASB staff presented a research plan aimed at helping resolving issues relating to the measurement technique under IFRSs of present valuing future cash flows. The project team's focus is on identifying principles that the IASB could apply in developing new and revised IFRSs that involve present valuing future cash flows. The team's plans include drawing on the ideas and expertise of the AOSSG membership, liaising with the IASB on an ongoing basis and providing the IASB with its findings by mid-2013.

Other Items

Memorandum of Understanding

Members voted to amend the AOSSG Memorandum of Understanding to, among other things, extend the terms of the AOSSG Chair and AOSSG Vice-Chair from one year to two years to facilitate the long-term efficiency and effectiveness of the Group.

IFRS Foundation Regional Office

IFRS Foundation Trustees, Jeffrey Lucy and Noriaki Shimazaki, and Mr. Hoogervorst informed the meeting about the planned IFRS Foundation Regional Office in Tokyo. Members discussed the potential significance of the Office to the Asian-Oceanian region.

Academics and Standard Setters: Partners or Protagonists?

Professor Philip Brown spoke at the AOSSG gala dinner attended by AOSSG members, IASB representatives, IFRS Foundation representatives, FRC members, AASB members and other members of the accounting profession. Professor Brown highlighted the need for closer collaboration between academics and standard setters in enhancing the debate on critical financial reporting issues internationally.

An informal meeting of the AOSSG is planned for March 2012 in Kuala Lumpur.

About the AOSSG

The objectives of the Group are to:

- (a) Promote the adoption of, and convergence with, 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.

Further information about the AOSSG and its Working Groups is available at www.aossg.org