asian-oceanian standard-setters group

31 January 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Re: IASB's Request for Views on Effective Dates and Transition Methods

Dear Sir David

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB's request for views on *Effective Date and Transition Method* that was issued by the IASB on 19 October 2010.

The AOSSG currently has 24 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Thailand, and Uzbekistan.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Individual member standard setters may also choose to make separate submissions that agree or disagree with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard setters may hold.

This submission has been reviewed by members of the AOSSG after having been initially developed through the discussion at its Chairman's Advisory Committee. In developing the submission, we have sought and considered the views of others in AOSSG membership.

In responding to the request for views, we have tried to identify the principles that should be at play and the constraints upon those principles that should affect the selection of effective dates and transitional methods.

We would also like to take this opportunity to highlight our concerns that the current timeline of June 2011 proposed by the IASB to issue the proposed standards is highly accelerated given the complexity and potential impact of these projects to the financial reporting community. This is also a reiteration of our concerns expressed to the IASB representatives at the second AOSSG meeting. We urge the IASB to reconsider the current timeline of June 2011 such that there is sufficient time to address the significant concerns raised by global stakeholders relating to the proposed standards. Doing so would invariably aid the IASB to achieve its goal of having a set of globally accepted high quality standards.

The Principles

In principle, we believe that proposed standards should become effective as soon as possible, given that their purpose is to improve the financial reporting. We also support the current basic policy on retrospectivity as it provides for comparison over time whenever practicable.

The Constraints

We recognize that time and cost to implement proposed standards will usually vary significantly depending upon:

(a) the generic complexity of the topic and requirements;
(b) the interrelationship and need for consistency among standards;
(c) the business environment into which the requirements are injected;
(d) the adjustments which may be needed to other legislation and contractual agreements and undertakings;
(e) the need for translations between languages;
(f) the necessary steps to train and educate personnel;
(g) the systems implications and necessary transition for changes; and,
(h) the feasibility of making retrospective adjustments when hindsight is inevitable.

The above factors will be further complicated when there are multiple changes in standards taking place simultaneously and especially if there are cross-cutting issues between those standards or with existing standards.

The Current Situation in the Asia Oceania region

The IASB request for comment canvasses the handling of changes that affect the members of AOSSG in quite different ways, depending on where they are on the IFRS pathway. We have member jurisdictions in a variety of situations, including those that:

(a) have applied IFRS since 2005 (e.g., Australia, Hong Kong);
(b) have recently applied IFRS (e.g., Korea)
(c) will require application of IFRS from a specified future date; and,
(d) are converging their domestic GAAP with IFRS, with a view to considering adopting IFRS at some unspecified date in the future, while permitting the voluntary application of IFRS (e.g., Japan); and
(e) have converged or are converging their domestic GAAP with IFRS, but do not permit the use of IFRS (e.g., China, India, Malaysia[1], and Singapore[2]).

Within those categories, there are also varying capacities to handle the constraints listed above. In addition, though it is not certain, the possible dates for future adoption of IFRS by AOSSG members may vary significantly ranging from 2011 or later in this decade.

[1] Foreign companies listed on a stock exchange in Malaysia are allowed to use IFRS.
[2] Singapore companies are allowed to apply the IFRS subject to the approval of the Accounting and Corporate Regulatory Authority.

Thus the principles for introducing new standards need to be tempered in the current circumstances for both the normal constraints (albeit to be felt in full force) and for regime changes taking place at varying dates and whilst the target platform is shifting so much. Nonetheless, a need to switch the standards twice during a short period of time would significantly deter companies from switching their existing standards to IFRS; thus careful consideration may be warranted for first-time adopters.

It needs also to be borne in mind that delaying changes for transitioning jurisdictions can mean that they have to introduce new systems to adopt IFRS for the first time, and then re-engineer them for the delayed standards. Provision for early adoption mitigates this problem.

Possible Approaches

In theory, the IASB could simply proceed, in a normal manner, on a standard-by-standard basis making their best judgements as to when each standard should be mandatory and any concessions needed within the relevant standard to enable a practical start.

Alternatively, the IASB could group related standards and introduce them in a logical sequence driven by their ease of application and their interdependence, thus spacing out the implementation task.

It would also be possible for the IASB to specify a single future date by which it could be hoped that all entities would have been able to implement the new standards (whether individually, in groups or in one step taken at some time over the period to required application).

The latter approach may also require consideration of the length of the period made available for voluntary early adoption. Very long periods may see comparability disrupted too much. Banning early adoption, on the other hand, would deprive users of such information as can be supplied and would elevate comparability over relevance.

It should also be borne in mind that companies moving to adopt IFRS will have different preferences as to when and how to change. Some will wish to choose a particular date and gear all of their systems and educational efforts to that date. Others will want to spread the load.

Our Recommendations and Observations:

Based on the abovementioned analysis, we recommend or observe the following:

(1) Adoption of IFRS should be preserved in its meaning (compliance without carve-outs) and IFRS 1 should be the source of all relief upon regime change. Accordingly, the IASB should specify in IFRS 1 all possible treatments due to the regime changes, so that individual jurisdictions can then know what concessions govern all transitions and, in that light, choose from when they wish to adopt IFRS.

(2) It would seem apparent that projects that would require the most challenging transitional workload will be the benchmark, if a single date approach is taken. During our discussion, members *generally* agree that periods beginning on or after 1 January 2015 would be an appropriate target date (assuming the proposed standards are all in place on 30 June 2011). Beyond then would seem to be too long to be responsive to users' needs.

Early application of individual standards could be provided up to the application date, subject to any pairing of standards needing to be applied together because of cross cutting requirements.

(3) Alternatively, the IASB could establish tranches of standards with different application dates. For example, some of the easier standards to apply could have application dates of 1 January 2013 or 2014, with the balance required to be applied by a specified date (e.g., 1 January 2015).

(4) A variation might be to separately identify standards such as those involving large systems or other material changes (e.g., insurance and impairment of financial assets) and to determine their application dates based on direct assessment of their implications. This could be done under variations of (2) or (3).

As might be expected in the AOSSG, with its varied membership, preferences between the above approaches vary considerably, where some prefer the sequential approach as set out in (3) and (4) (see further details in Q5), while others are suggesting a single date approach (with mandatory effective date from 1 January 2015).

It has been observed that those who have already been applying IFRS for sometime tend also to be the jurisdictions with the system capacity to cope with change. They would tend to prefer (2), with all changes applicable by periods beginning on or after 1 January 2015. They could cope with an earlier tranche the year before. However, they would prefer to choose their own timing for transition.

Jurisdictions scheduled to transition to IFRS are worried about the double handling of systems and educational efforts. Some of them may well be tempted to delay their initial application date so that they face one body of new requirements. In addition, those that have permitted the voluntary application of IFRS and will determine whether to require its mandatory application using their experiences are worried that the double handing concern may deter companies from switching the standards they use; thereby the decision for mandatory application would be delayed accordingly.

It was noted that developing nations even find 2015 a challenging target; thus some prefer to have another year or so to help ensure successful transition.

Our views are expressed in detail in the Appendix, following the questions asked in the request for views.

If you have any queries regarding any matters in this submission, please contact us.

Yours sincerely

Ikuo Nishikawa	Kevin Stevenson
Chairman of the AOSSG	Vice-chairman of the AOSSG

Appendix

Background information

Q1 Please describe the entity (or the individual) responding to this Request for Views.
For example:

(a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.

(c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.

(d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.

(e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

We are a group of accounting standards setters in the Asia and Oceania region. In a number of jurisdictions throughout the region, IFRS are applied, or their national standards have been being converged with IFRSs. More recently, some jurisdictions have started the application of IFRS either through voluntary or mandatory basis, and others are considering the transition to IFRSs in the near future.

Therefore, the proposed new IFRSs will significantly affect the accounting in the region. In addition, we would like to draw your attention to the fact that quite a few companies in the region that currently prepare their financial statements in accordance with US GAAP are considering switching their accounting standards to IFRSs.

Preparing for transition to the new requirements

Q2 Focusing only on those projects included in the table in paragraph 18 above:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Based on the exposure drafts of proposed standards as well as information obtained through discussion with our stakeholders, we think that the necessary transition period will vary significantly, depending upon the business environments in which companies operate as well as the current accounting requirements that companies are required to follow. This is particularly relevant in our region, where the industry-line in which companies operate and stage of their operational developments vary significantly.

Nonetheless, in general terms, we think that proposals on *Financial Instruments (impairment)* and *Insurance Contracts* are likely to require the most significant time and cost for companies to update information systems and to accumulate necessary data, as well as to train personnel, plan for, and implement standards. In addition, *Fair Value Measurement*, other parts of *Financial Instruments*, *Leases*, and *Revenue from Contracts with Customers* are also cited as those that would require considerable costs and time.

Q3 Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

In a number of jurisdictions throughout the region, financial reporting amounts are used as a basis for taxation, amounts available for dividends, debt covenants, and other regulatory requirements. Accordingly, effects of the requirements arising from those new IFRSs will be significant. For example, net income is commonly used as a basis or starting point to calculate taxable income as well as the base for regulatory indicators such as meeting eligibility criteria for an IPO; thus the proposed requirements of non-recycling will have a significant impact on taxation requirements. One member suggested that the proposed standard on *Revenue from Contracts with Customers* may give rise to the need for conforming changes to tax systems and listing requirements, as well.

In addition, it was mentioned that the concept of "business model" that is introduced by *Financial Instruments (Classification and Measurement)* may have an implications to the audit process, in understanding entities.

Q4 Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

We generally agree with the transition method as proposed for each project, but suggest following changes:

- For *Financial Instruments (Phase II: Impairment)*, while we generally concur with the proposed transition approach, we think an impracticability override is necessary. In the event that retrospective application is impracticable, we would support an opening balance transition adjustment. One of our members is of the view that comparative information should not be restated as this would involve the use of hindsight, which is specifically prohibited by IAS 8.
- For *Insurance Contracts*, while some of our members are in a position to apply the proposals retrospectively, most members are not. Most members consider that the full retrospective application would not be practicable particularly where insurers have made distributions to policyholders and shareholders prior to the implementation of this proposed standard. It is also legally not possible to 'claw-back' previously distributed surpluses to policyholders and shareholders. Furthermore, it can be impracticable to

retrospectively determine composite margins, residual margins and risk adjustments for legacy insurance contracts. It is also doubtful whether this requirement would address cost-benefits to insurers and users of financial statements. Thus, most of our members prefer the use of the prospective application of the proposed standard for insurance contracts and think retrospective application should be permitted when an entity can do so. One of our members believes that insurers should be permitted to estimate the residual margin for existing "in-force" insurance contracts at the date of transition and release this margin over the remaining insurance coverage period, to ensure consistency of treatment for new contracts recognised subsequent to transition.

- For *Leases*, we think full retrospective application should be permitted when an entity can do so. In addition, it would seem difficult for companies tracking contracts back to the transaction date, to identify discount rates and estimate contingent lease payments in the case of long-term lease contracts.
- For *Revenue from Contracts with Customers*, as we stated in the submission on the ED, we are in general agreement with the retrospective application of the proposed requirements, with the proviso that the effective date of the standard is set at a date that would give preparers enough time to implement the proposals. One of our members prefers prospective approach from the perspective of avoiding the significant effect of the new standard and balancing the cost/benefit. This member was also suggested that the IASB consider limiting the retrospective application of the proposed requirements to contracts with customers that are uncompleted at the effective date of the standard.
- For *Post Employment Benefi*t, we disagree with the retrospective treatment that was proposed in the proposed standard, since it would be almost impossible for entities that use the corridor approach under the extant IAS 19 to undergo the required transition treatment and include amortized amounts into the costs of inventories.

Effective dates for new requirements and early adoption

Q5 In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Taking into account the presumption that new requirements are expected to improve financial reporting, we believe that the proposed standards should be applied sooner as far as it is practicable to ensure successful transition.

As stated in the cover letter to the submission, depending upon the surroundings, we hold different preferences between the single date approach and sequential approach. Yet, based on the information obtained through discussion with stakeholders, we think the following effective dates would be appropriate, if the IASB follows the sequential approach. For the single date approach, please see the cover letter of the submission. Please note that we hold the view that earlier application should be permitted in principle, regardless of the effective dates.

<u>The proposed standards that should be effective from 2012</u>

- ***Presentation of Items of Other Comprehensive Income*****:** Effective date should be January 1, 2012, considering relatively narrower scope for the changes in the standards.

<u>The proposed standards that should be effective from 2013 or 2014</u>

- ***Post Employment Benefits*****:** Effective date should be January 1, 2013, considering that entities are likely to take more time to determine whether they should present the re-measurement component in profit or loss or other comprehensive income, taking account of the impact therewith.
- ***Consolidation***: Effective date should be January 1, 2013, considering that entities will be required to accumulate data and analyse thereon, to enable retrospective application. Considering the similarities and interrelationship, the effective date of ***Joint Arrangements*** should be aligned with that of *Consolidation*.
- ***Financial Instruments (Phase I: Classification and Measurement)***: Some members consider the effective date should remain January 1, 2013 as already specified in IFRS 9, considering that a number of companies have already started the implementation process in accordance with the timetable, while others felt that all parts of the financial instruments project should not be effective until 2015.
- ***Financial Instruments (Phase III: Hedging)*****:** Effective date should be January 1, 2013 or 2014, considering the complexity of the standards and the associated preparation period as well as the relatively late expected timing of issuance (June 2011).
- ***Fair Value Measurement*****:** Effective date should be January 1, 2013 or even later to make alignment with that of financial instruments standards, considering the implementation difficulties with regard to the availability of experts' assistance in some jurisdictions.
- ***Revenue from Contracts with Customers*****:** Effective date should be January 1, 2014, considering that it would take time to prepare for changes in accounting for contracts with multiple elements and construction contracts.
- ***Leases*****:** Effective date should be aligned with that of the *Revenue from Contracts with Customers* standard, since they correlate with each other and both involve the treatment of distinct service elements.

<u>The proposed standards that may be effective on or after 2015</u>

- ***Financial Instruments (Phase II: Impairment)*** and ***Insurance Contracts*****:** Effective date may be 2015 or later, considering the significant complexity as well as anticipated time necessary to adapt information systems and accumulate data. In our submission on IASB ED/2010/8 "*Insurance Contracts*", we said 5 years of preparation time would still be short for most jurisdictions as Phase II requires a dramatic change of systems that would need building and testing. As for the impairment standards, given its importance, and the urgent need highlighted during the financial crisis, it should be effective sooner, if practicable. Also, we wonder if financial institutions may be better able to manage transitional difficulties if transition coincides with when they are coping with new regulatory capital requirements.

Alternatively, it is possible to group sets of standards into the following categories:

- *Revenue from Contracts with Customers, Leases, Insurance Contracts, Financial Instruments, and Fair Value Measurements*[3]
- *Post-Employment Benefit, Presentation of OCI, Consolidation, and Joint Arrangement*[4]

Members who prefer this approach support a single date approach for those standards listed in the first category; and the mandatory effective date of those standards in the first category is suggested to be 1 January 2015 to give companies sufficient lead time to update their systems and train staff to capture comparative data in an orderly fashion. For the second category, the effective date of proposed standards should be considered on a case-by-case basis but before those in the first category become effective.

Q6 Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time

In principle, early adoption should be permitted, given that new IFRSs are designed to improve financial reporting. However, so as to help ensure comparability, some think that the voluntary application period should be limited to a certain extent. For some, the interval period can be, for example, defined to be no longer than two years. Another way to mitigate the concern is to require disclosure of the financial effects when a company chooses an early adoption.

In addition, taking into account the interrelationship among several proposed standards (see our response to Q.5), we suggest the IASB take into account the following considerations, when deciding upon the treatments of early adoption provided that the sequential approach is taken, although all proposed standards will be adopted simultaneously when the single date approach is taken.

- Proposed standards on *Consolidation* and *Joint Arrangement* should be adopted simultaneously;
- Proposed standards on *Revenue from Contracts with Customers* and *Leases* should be adopted simultaneously; and
- When an entity early adopts the proposed standard on *Post-Employment Benefits* and *Financial Instruments (classification and measurement)* while using the OCI option, the proposed standard on *Presentation of Items of Other Comprehensive Income* should be also adopted at once.

---

[3] The standards in the first category have a significant impact on the way companies report performance, and their scopes of application are closely related. Therefore, these projects should be effective simultaneously so as to maintain comparability of financial information between companies, to prevent conceptual inconsistencies, conflicting scope requirements and overlapping consequential amendments.

[4] The standards in the second category are also important but it was thought that they would have a more contained and discrete effect on financial reporting than the first category.

International convergence considerations

Q7 Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

In principle, the IASB should place priority on consistency of proposed standards within a set of IFRSs and consider cost and benefit for companies that apply IFRSs before considering the consistency between IFRSs and US GAAP. However, in the light of comparability and the need for a level playing field around the globe, it would be optimal if the IASB and the FASB could align the effective dates and transition methods under IFRSs and US GAAP; thus we encourage the boards in this endeavor.

Considerations for first-time adopters of IFRSs

Q8 Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why or why not? If yes, what should those different adoption requirements be, and why?

As stated in the cover letter to the submission, the situation differs significantly among our members; thus the conclusions drawn vary significantly. In theory, we consider that it may be optimal if all companies can use the same effective date, regardless of whether they are existing adopters or first-time adopters.

However, taking into account that adoption of, or convergence with, IFRSs is being progressed in a number of jurisdictions throughout our region and that first-time adopters are likely to experience more significant difficulties than existing adopters, some think it practicable to give the first-time adopters flexible transitional arrangements, so as not to deter them from switching to IFRSs. A possible way is to give another year for companies that are going to adopt IFRSs in 2013 or 2014. This means that, even if the mandatory effective date is set 1 January 2015, these companies are allowed to undergo the transition in 2016, so as to facilitate adoption of IFRSs. These members held the view that significant changes during a short period of time would not only impose excessive burdens on first-time adopters but confuse users of their financial statements.

Nevertheless, we believe that the IASB should set out the all transitional effects for first-time adopters in IFRS 1, so as to avoid misunderstandings among stakeholders.