

30 November 2011

Mr. Hans Hoogervorst
Chairman of the International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans:

Re: Agenda Consultation 2011 of the IASB

The Asian Oceanian Standard-Setters Group (AOSSG) is pleased to respond to “*Agenda Consultation 2011*” of the International Accounting Standard Board (IASB or the Board). The AOSSG believes that the consultation document came at an opportune time as stakeholders are wondering about impact of ‘regime changes’ of the IASB. We also believe that the newly established formal consultation process significantly promotes transparency of the IASB’s agenda decision process, and helps address the pressing needs by taking a fresh look at every possible project undertakings.

The AOSSG currently has 25 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, Uzbekistan, and Vietnam.

The AOSSG sets out to promote the development, convergence with, and adoption of IFRS as well as fostering the capacity of domestic standard-setting in the region to contribute to the work of the IASB.

This submission has been prepared by the AOSSG Chairman’s Advisory Committee and reviewed by the wider membership. Individual members of the AOSSG may also choose to make their own submissions that are consistent or otherwise with aspects of this submission. It is a policy of the AOSSG that submissions reflect any diversity of views within the membership of which we become aware.

Diversity and consistency among the AOSSG membership

Although there has been significant progress towards application of IFRSs in our region, the stage of progress differ significantly across jurisdictions. This diversity (this could be perceived as a reflection of the wider global IFRS community) led us to suggest various future undertakings. For example, jurisdictions having adopted IFRSs since 2005 tend to give priorities on ensuring consistency among standards and filling the gap in the IFRS literature, whereas those adopted IFRSs recently and are grappling with initial applications call for a ‘period of calm’ to allow them to focus on implementation and more resource allocation for implementation. Further, jurisdictions having progressed with convergence of national standards with IFRSs, wish to see more opportunities to collaborate with the IASB in the development of global standards. Nevertheless, through the discussion, we have identified fairly consistent themes, both in terms of general directions and specific topics.

Confirming the underlying premise for future undertakings

Whilst the AOSSG believes that the first decade of the IASB would be acknowledged as a significant success, its activities have been characterised as having a focus on EU adoption of IFRSs, and secondly encouraging the US to adopt IFRSs. While these matters are important, the AOSSG acknowledges there is a level of fatigue amongst interested parties in relation to rapid developments seemingly driven by particular strategic objectives (especially having the US adopt IFRSs). The focus does not seem to have been on a balanced set of technical objectives responding to global needs. The AOSSG believes that the critical objective of the IASB should be to develop a set of high quality standards which strikes the appropriate balance between conceptual grounding and pragmatism, and that this can only be achieved through meticulous consideration of relevant issues within a relatively stable standard-setting environment. Achieving such an environment is, in the context of so many countries making the transition to IFRSs, now of utmost importance.

In addition, having considered the resource constraint (both in terms of staff time and board members' capacity), it is important for the IASB to focus on the 'right initiatives.' Although the consultation document is not clear about what premise the Board may have - such as the number of staff, frequency of board meetings, respective roles of the IASB and the IFRS Interpretations Committee (the Committee), the level of commitment to the global convergence, and how to utilise its liaison office -, the IASB may want to clarify these respects before making decision as to which project to undertake. In clarifying the constraint, the Board may benefit from considering whether particular initiatives may require the Board's time or staff time, or the Committee's time, since for instance implementation support may need more staff or Committee time than board time. The IASB could consider having the IFRS Interpretations Committee to be more involved on matters relating to implementation of standards. When considering these aspects, the AOSSG recommends the IASB to work with IFRS Foundation Trustees, taking into account the relevant feedback received on their strategy review consultation.

Partnering with NSSs or the AOSSG

It is likewise important to formulate how the IASB partners with national standard setters or a group of national standard setters (such as the AOSSG) so as to leverage the resources around the world. By working with NSSs the IASB may be able to overcome its resource constraints. For example, national standard setters can help promote the consistent application and implementation of IFRSs, and regional groups can be a vehicle to coordinate the initiatives to facilitate consistency among their peers. National standard setters or regional groups can also assist in the development of IASB projects by researching potential issues and testing several models in their own environments. Regional groups such as the AOSSG could also help undertake research for IASB, especially on areas that are more pertinent for the region such as Islamic Finance and Agriculture. As stated in our Vision Paper, the AOSSG believes that a confirmation between a party undertaking a research project and the IASB regarding how the IASB intends to utilise its outcome, would be essential before extensive work is undertaken.

Establishment of reasonable workload

Nevertheless, the AOSSG firmly believes that planning for project undertakings leading up to standard setting should be ultimately anchored to capacities of relevant stakeholders who are involved in standard-setting. In other words, it is important that projects are carefully selected by ensuring that:

- The board members can sufficiently digest all issues and understand anticipated effects by analysing staff proposals and comments from stakeholders before making important decisions;
- The staff have sufficient time to research issues and practices, and analyse all related issues (including cross-cutting ones); and
- Stakeholders (including users, preparers, and auditors) have time to understand and analyse the proposal (or consultation) of the Board, and ensure that implementations can be made smoothly once standards are finalised.

Through the discussion with the IASB members, we were pleased to be informed that the IASB plans to go back to the previous, more manageable old pattern of board meetings and try to limit the scheduling of extra-meetings.

The AOSSG observes that the Board's work plan has been overloaded in the last couple of years resulting in the Board changing plans quite frequently. Although an ambitious timetable sometimes serves as a catalyst to maintain a momentum, it might strain the IASB's ability to cope with important issues. Considering the rapidly changing environments (such as a seemingly never-ending global financial crisis), the AOSSG recommends that the IASB keep a sufficient 'buffer' to deal with unanticipated issues by sketching out a realistic work plan to demonstrate the Board's responsiveness to its stakeholders worldwide. For example, a discussion of integrated reporting is still at an early stage, and conditions are fluid. Thus, although responding to the needs relating to integrated reporting may become fairly a large and urgent project of the IASB, we cannot predict how things will evolve.

Prioritisation of projects

Based on the premise that the AOSSG may want the IASB to maintain, the AOSSG suggests the following three projects that the AOSSG believes of particular priority in light of its relevance and urgency, although other projects are equally important for several members (see page 6-12 for details):

- Conceptual framework, including the followings:
 - The notion of 'OCI and recycling'/the performance measure
 - Presentation and disclosure
 - The notion of 'control
 - Other areas such as definition of elements and recognition/derecognition
- Post-implementation review and implementation assistance; and
- Limited amendments to IAS 41 *Agriculture*.

Further, all potential projects listed in Appendix-C of the consultation document have greater or lesser degree of relevance, and none of them can be dismissed entirely. However, it would seem that the following projects would be of lower priority, taking into account urgency and resource constraints (see page 12-14 for details):

- Country-by-country reporting;
- Interim reporting;
- Earnings per share;
- Equity method of accounting; and
- Inflation accounting.

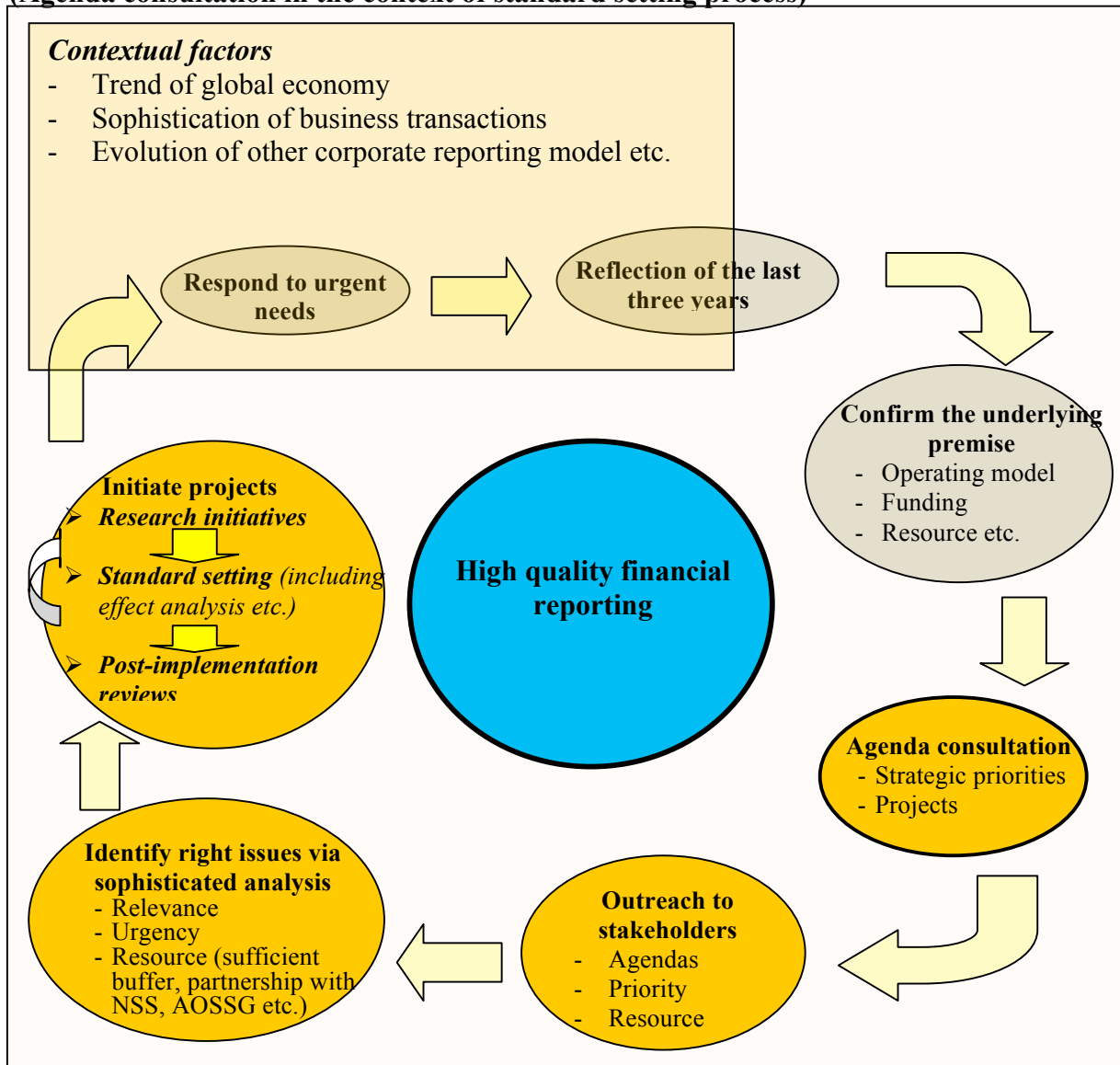
Next steps

Finally, the AOSSG encourages the IASB to explain how comments (including ours) are rated in terms of priority in its agenda setting process, to promote the value of this public

consultation process. A sophisticated approach (considering multiple factors in a systematic manner) would further increase the transparency and objectivity; thereby upholding the legitimacy of agenda items selected by the IASB. In addition, it may be helpful if the IASB exhibits the relative positioning of agenda consultation in the context of standard setting process.

For your reference, we include the following diagram which illustrates how the agenda consultation process can be best utilised in the standard setting process.

(Agenda consultation in the context of standard setting process)



Please see Appendix-I for our response to specific questions. We also attach the Appendix-II, which explains our item-by-item analysis regarding possible projects identified in the consultation document.

If you have any enquiries, please feel free to contact us.

Yours faithfully,



Kevin Stevenson
Chair, AOSSG



Ikuo Nishikawa
Immediate-past Chair, AOSSG

Appendix-I The AOSSG comments on specific questions in the consultation document

Question 1

Q1) What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

Question 1(a) Do you agree with two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Question 1(b) How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include them in your answer.

The AOSSG generally feels comfortable with the two categories and five strategic priorities suggested in the document. Yet, the IASB may wish to exhibit its attachment of particular weight to successful implementation of standards by separately presenting '*assistance to implementation of standards*' in parallel with '*developing financial reporting*.'

Please see the followings for our observations of respective categories and strategic priorities.

1. Developing financial reporting

Although three strategic priorities under the category seem appropriate, it is not clear to us whether the IASB intends to proceed with convergence projects with the FASB. We would genuinely welcome globally consistent standards; however, we believe many stakeholders (including many NSSs) are fatigued with the many changes to IFRSs initiated solely for the sake of US GAAP convergence, and now believe that the priority should be determined relative to global needs. Taking into account the growing significance of our region, both in terms of economy and capital markets we think that it is more sensible to have a greater focus on the needs in our region.

As many jurisdictions are struggling with inconsistencies of approaches in different standards, it is wise to place a priority on the overhaul of the conceptual framework as a linchpin for consistent standards. Although we do not think that the current conceptual framework is 'broken' and that changing for the sake of change is the right answer, it would be necessary to review the framework reflecting upon the Boards' deliberations of specific standards to confirm whether changes or clarification are necessary.

In addition, it is important for the Board to demonstrate that it continues to be responsive to the changing global environment. As acknowledged during and after the global financial crisis, accounting standards are an important element of the global financial regulation and the IASB needs to be responsive to the changing needs.

1) *Conceptual framework*

The AOSSG agrees that the conceptual framework should be a high priority. The project should include various aspects, *inter-alia*, performance measure(s) and performance reporting, presentation and disclosure, and other areas such as Phase-II topics (definition of elements, recognition, and derecognition) and Phase-III topics (measurement). As stated in the cover letter, there are inconsistent treatments across the standards which might lead some to question the quality of IFRSs. For example, financial instruments standards have significant overlaps with insurance contract standards, while the former is partly finalised and the latter is still a long way from the final. Thus, the Board's decisions on the insurance project could

identify areas where the financial instrument standards need to be amended. In this light, the AOSSG strongly believes that there should be a robust fundamental basis that facilitates consistency across the standards before significant undertakings of standard developments.

In addition, the AOSSG strongly believes that performance measure(s) and performance reporting and the role of other comprehensive income (OCI) should be considered as a part of the conceptual framework project. Under IFRSs, recycling of accumulated other comprehensive income (AOCI) is prohibited in several standards (e.g., IAS 19 and IFRS 9), whereas it is required in other standards (e.g., cash-flow hedges under IAS 39). Meanwhile, recycling of AOCI is required in some major national standards (such as the US GAAP and Japanese GAAP). The AOSSG highly recommends that the IASB pursue a globally converged outcome. The AOSSG acknowledges the fundamental nature of this topic means that it might take fairly a long period of time to resolve and might involve considerable research. Considering the prominence of ‘profit or loss’ as a key performance indicator, the IASB may want to consider taking a staged-approach in the way forward.

Further, the AOSSG agrees that companies’ annual reports have been increasingly voluminous and complicated, which may obscure relevant information from users. Although disclosure items have been developed through careful considerations and each disclosure item has unique roles, the AOSSG believes that trying to overhaul disclosure requirements is an appropriate initiative.

Finally, the AOSSG believes that it would be appropriate for the IASB to undertake a project on the notion of ‘control’ as part of the conceptual framework project. Control is a concept that is increasingly used in IFRSs such as in the proposed revenue recognition criteria for the new IFRS on revenue from contracts with customers, in addition to its current use in consolidation and the asset definition. As such, a project to articulate and determine the concept of control and its relevance in IFRSs is important due to the cross-cutting impact on its application across IFRSs.

2) Researching strategic issues for financial reporting

The AOSSG agrees that research is one of the important activities of the IASB, considering that the Board needs to go further towards unexplored territory of financial reporting standards. In particular, integrated reporting might have a significant impact on financial reporting, though it is not yet certain how this will develop. In addition, some members are sceptical about a suggested review of the future shape of financial reporting, especially since the review may rely on the views of a relatively small number of sophisticated firms in the most developed markets. When undertaking research projects, it is important to examine whether it might have a particular impact on jurisdictions in developing economies, since issues often differ in practice depending on the stages of economic development.

The AOSSG also suggests that the IASB partner with national standard setters or the regional groups (such as the AOSSG and GLASS), particularly on areas which are more pertinent for their regions. National standard setters often have strong expertise and experience that could be harnessed by the IASB. Moreover, through gathering information from its members and deliberating issues among themselves, the regional group can identify further options and opportunities that the IASB can make use of. For instance, the AOSSG provided an overview of the various business practices relating to the off plan sale of multi-unit multi-level private residential properties in the Asia-Oceania region, which provided the IASB with the necessary information on how the control notion as developed in the revenue recognition project should apply to such transactions.

3) *Standard-level projects*

The AOSSG believes that projects should be prioritised, considering relevant factors, including the following:

- Whether a deficiency is considered as significant in terms of the quality of financial reporting;
- Whether a deficiency is demonstrated as relevant to a number of stakeholders;
- Whether a project is a short-fix or long overhaul;
- Whether a project is anticipated to ensure consistencies among standards;
- Whether a project affects other standards (i.e., cross-cutting in nature);
- Whether an anticipated outcome is likely to be anchored to conceptual grounding and pragmatism (e.g., system changes, auditability, enforceability);
- Whether a new or revised standard would promote convergence globally (however, standard setting should not be validated only for the sake of convergence);
- How much resources are anticipated for undertaking a project; and
- Whether it is possible to gain assistance from others (such as national standard setters or regional groups).

For comments on specific projects, please see our response to Q2.

2. Maintaining existing IFRSs

Jurisdictions that adopted IFRSs recently are facing significant challenges in implementing the standards. As 2012 is shaping as another watershed year, when a number of jurisdictions start applying IFRSs, the AOSSG recommends that the IASB give high priority to the maintenance of existing IFRSs including the consistent application of IFRSs.

4) *Post-implementation reviews*

The AOSSG agrees with placing importance on post-implementation reviews. Such an initiative would be instrumental to identify areas or collect evidence where standards are 'broken.' Therefore, in addition to what has been suggested, the AOSSG recommends that the IASB conduct projects that deal with a package of standards, not just those with two-year's implementation experience, considering that this is a new initiative and none of the standards have been subject to review in the past. Moreover, some suggest that two-year's implementation experience is too short, given that the first year's experience is affected by first-time adoption issues. These members suggest that three to five years would be appropriate level of experience, to provide worthwhile suggestions.

Nevertheless, taking into account the resource constraint, the AOSSG believes that the IASB should be measured in its endeavours and not try to do too much at any one time. The AOSSG thinks that the focus should start with areas where inconsistent application has been reported in some fashion. For example, requirements under several existing standards (such as judgment around whether to recognise impairment losses on goodwill is properly applied under IAS 36, and criteria to capitalise development costs is consistently applied under IAS 38) have been reportedly applied differently among entities or jurisdictions. The AOSSG thereby believes that these are areas where the IASB may consider as potential scope for the post-implementation review.

5) *Responding to implementation needs*

The AOSSG believes that implementation support is one of the areas where the IASB staff should devote considerable time, whereas the IASB's time is not necessarily allocated to such

support. Also, the IFRS Interpretations Committee (the Committee) can play a bigger and important role in this area.

Therefore, so as to clarify the totality of the future strategy, the IASB may want to clarify how it wishes to work with the Committee as well as how it wants to allocate its staff time.

Question 2

Q2) What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Question 2(a) Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow targeted improvement would suffice?

Question 2(b) Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated and why? Please link your answer to your answer to question 2(a).

1. Top-three priorities

As stated in the cover letter, the AOSSG believes that the IASB should ensure flexibility of its activities by maintaining a sufficient 'buffer'; thereby continuing to respond to the changing environment. In this context, the AOSSG suggests that the IASB give particular priority to the following three projects for the following reasons:

■ Conceptual framework

Please see our response to Q1 under the heading of 'Conceptual framework.' Considering that there are a number of cross-cutting issues, the AOSSG appreciates it will take a while to finish the project. The AOSSG anticipates that it is a project's that requires a relatively significant investment of Board and staff time.

■ Post-implementation review and implementation assistance

Please see our response to Q1 under the heading of 'Maintaining existing IFRSs.' Although the resources required for post-implementation review and implementation would be significant, the AOSSG believes that staff time and the Committee's time (rather than the Board's time) can be usefully allocated to help meet the needs of stakeholders.

■ Limited amendment to IAS 41 Agriculture, particularly bearer biological assets

As already communicated, the AOSSG recommends that the IASB undertake a limited-scope project on Agriculture. A number of jurisdictions in our region have suggested that accounting treatments of agriculture are problematic, especially regarding those of bearer-biological assets (such as palm trees). For entities engaged in plantation businesses, bearer-biological assets are, by nature, similar to factories, and many believe that the concept of IAS 16 should be applied to such assets, and consequently the assets should be accounted for as such.

As the AOSSG Working Group (led by India and Malaysia) has carried out preliminary work on the project, we anticipate that the IASB could quickly proceed with the project by leveraging the results of our research. In addition, based on the preliminary assessment, the

AOSSG believes that most of the issues can be resolved with the reasonably limited number of amendments. Thus, the AOSSG does not consider that it is a resource-intensive project.

2. Other projects with higher priorities

Although members' views differ in some cases, we suggest that the following projects are highly important in addition to the aforementioned three projects.

■ **Business combinations between entities under common control**

In some jurisdictions in our region, most entities are controlled by a government or conglomerate companies, and most mergers and acquisitions are perceived as 'business combinations between entities under common control.' With the absence of provisions in IFRSs, such transactions might have been accounted for using either the pooling-of-interest method, acquisition method, or fresh start method. Given that the practice differs significantly, the clarification of treatment is critically important for such jurisdictions.

■ **Foreign currency translation**

A number of entities have practical challenges in the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Some members are concerned with the way in which IAS 21 copes with those rare circumstances in which very thin currency markets can yield volatile spot rates that, when applied to transaction balances, seriously impact on income statements. They question why an approach that uses a hierarchy of inputs, similar to that used for determining fair values, could not be developed for exchange rates. These members worry that spot rates can, in thin markets, be at odds with best estimates of future events. Other members do not share the reasoning behind this suggestion but agree that the principles underlying IAS 21 are not stated and that the standard is quite old and in need of reconsideration in various areas.

For example, some members think that the process of determining a 'functional currency' should be further examined, taking into account the inconsistencies with other existing standards (e.g., the US GAAP), as it does not encompass sufficient flexibility to appropriately reflect the economics of the situation. The AOSSG believes that it could be dealt with a narrow scope project possibly by partnering with the Committee.

The AOSSG feel that the issue is paramount, when a jurisdiction is using a currency that is not often used for the reserve currency (such as USD or Euro); thus the issue around IAS 21 would be of more significance to the Asian-Oceanian region than to the US or EU.

Certain members of the AOSSG plan to undertake further research into issues relating to IAS 21, and would be pleased to share their findings with the IASB.

The AOSSG believes that required resources will vary considerably, depending on the project specification.

■ **Islamic (Sharia-compliant) transactions and instruments**

The AOSSG members believe that there are significant issues relating to Islamic finance transactions, since IFRSs requirements and basis of Islamic finance transactions are not necessarily consistent. In some jurisdictions in our region, Islamic finance transactions are originated based on a belief that interest income cannot be earned through lending transactions; and transactions are customised accordingly. The AOSSG believes that the

IASB should at least examine issues by undertaking studies in the area and via outreach activities with major stakeholders; the AOSSG would be happy to assist.

The AOSSG has published a discussion paper and submitted a number of comment letters in this regard and is pleased to continue to provide assistance to the IASB on these matters. In this context, we attach a separate letter as Appendix-III, the comments from the AOSSG Islamic Finance Working Group. The comment includes a proposal for the IASB to establish the advisory group that specifically deals with consideration of issues around Islamic finance.

■ **Emissions Trading schemes**

The AOSSG members suggest that Emission Trading schemes are increasingly important and reporting on them warrants immediate consideration. For jurisdictions with developing economies, Clean Development Mechanism (CDM) is another important issue, whereas accounting practices are not necessarily converged due to the lack of robust requirements. For this reason, the AOSSG submitted a comment letter on 4 July.

However, the AOSSG is currently not certain how urgent the issue would grow, considering the on-going debate around the target level of reduction of GHG emissions at the international or national level.

■ **Intangible assets and goodwill**

Some members suggest that criteria for capitalization of intangible assets under IAS 38 are leading to diversity in practice, and it should be revisited based on the careful review of how it has been implemented. In addition, some recommend that the Board revisit whether the requirements regarding goodwill impairment under IAS 36 remain appropriate (or whether to require amortisation of goodwill), taking into account the practical experience (see our comment on post-implementation review).

■ **Discount Rate**

As existing and forthcoming IFRSs require or permit present valuing of future cash flows, this topic is increasingly important.

The AOSSG is planning to conduct research regarding the topic of present valuing future cash flows (discounting), which may include establishing a working group. The aim would be to provide findings that would be useful for the IASB to consider in revising its various discounting requirements.

■ **Limited amendment to IAS 37**

The IASB suspended its work on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* after it published an Exposure Draft (ED) in 2005. Although a number of aspects of the ED, which include the proposal to abolish the probability threshold and to require the use of expected present value techniques in measuring non-financial liabilities, may prove to be irrelevant, some AOSSG members suggest that the IASB may benefit from undertaking consistency check with other standards (e.g., *Leases* and *Revenue recognition*) once these projects are finalised.

The AOSSG believes that it is one of the projects that may be finalised with relatively limited application of resources.

■ **Financial Instruments with characteristics of equity**

Responding to changes in regulatory frameworks (especially, Basel-III), the level of sophistication regarding equity or debt finance has significantly developed over the recent years, leading to more complicated hybrid financial instruments with characteristics of equity. Such development has necessitated accounting standard setters to carefully consider whether the current standard is sufficiently robust in determining how to account for such instruments.

However, the AOSSG notes the challenge in providing comprehensive guidance, since such schemes are devised fairly quickly responding to urgent needs. In addition, the distinction between liability and equity is often prescribed in national laws (for example, Companies Acts), and reconciling possible ramifications to legal provisions would be a huge undertaking.

Therefore, the AOSSG recommends the IASB carefully consider the implications that changes of accounting standards may have, when considering whether a project is warranted.

■ **Rate regulated activities**

Some AOSSG members identified differing practice regarding whether regulated activities give rise to regulatory assets or liabilities, while other members feel that practice is not significantly diverged even without specific guidance.

Such divergent understandings lead to differing views as to how to prioritize the project. Accordingly, the AOSSG recommends that the IASB undertake further fact-finding studies whether diversified practices are due to a lack of guidance (or a difference in legislative arrangements) before determining a direction.

The AOSSG is now considering further study of the issue by forming a less formal working arrangement among members interested in the topic. The AOSSG would be pleased to provide the outcome of the study to the IASB.

■ **Extractive industries**

There are countries within the Asia-Oceania region where extractive activities are common. Thus, one of the AOSSG members (Australia) contributed to formulating the Discussion Paper *Extractive Activities* published in April 2010. The AOSSG believes that it would be helpful to upgrade IFRS 6 *Exploration for and Evaluation of Mineral Resources*; however, we acknowledge the project would be resource intensive.

On balance, the AOSSG does not believe it should be an immediate standard-setting initiative of the IASB in the next three years, while recommending that the IASB should keep abreast of whether there are divergent practices of financial reporting.

Similar to *Rate regulated activities*, the AOSSG is now considering further study of the issue by forming a less formal working arrangement among members interested in the topic. The AOSSG would be pleased to provide the outcome of the study to the IASB.

3. Projects with lower priority

As stated in the cover letter, the AOSSG also believes that following projects would be of lower priority, taking into account the urgency and resource constraint.

■ **Country-by-country reporting**

Although there is a request for improved transparency regarding country-by-country reporting, the AOSSG is unclear on whether this reporting would be decision-useful in capital markets or to business counterparties. The motivations for requiring it appears to be in some sense

regulatory, and we are inclined to believe that those wanting such reporting could secure it by other means (such as through regulatory reporting requirements.)

Therefore, though the AOSSG agrees with the need for country-by-country reporting, it should not be a priority for the IASB to address in the next three years.

■ **Interim Reporting**

The AOSSG acknowledges that IAS 34 *Interim Financial Reporting* can be problematic especially for jurisdictions that require quarterly financial reporting. Although IAS 34 prescribes minimum contents of the interim financial report and does not mandate how frequently or how soon after the end of an interim period the interim report should be published, these aspects are strongly linked. For example, investors demand more extensive information to entities that publish reports semi-annually than those with quarterly financial reporting. Also, it is not realistic to request the same information of entities that have very tight reporting deadlines. Therefore, in the long run, the AOSSG believes that introduction of scalable concepts is necessary, taking account of relevant environmental factors.

Nevertheless, given that major jurisdictions adopting quarterly financial reporting system (e.g., US and Japan) have not taken decision on the mandatory use of IFRSs, the AOSSG does not necessarily believe that this is an urgent priority within the next three years.

■ **Earnings per share (EPS)**

Although the AOSSG agrees with the paramount importance of EPS information, in our experience the existing literature is not causing significant difficulties in the market. In addition, the AOSSG feels it would be cost-effective, if the IASB first addresses the definition of performance or ‘profit or loss’ before undertaking EPS.

Therefore, the AOSSG does not believe it should be a priority for the IASB to address in the next three years.

■ **Equity method of accounting**

Although the objective and relevance of the equity method of accounting has been under debate, the AOSSG believes that this issue should be considered in conjunction with scope of consolidated financial statements as well as accounting for joint arrangements. Considering that IFRSs 10-12 were issued in May 2011, the AOSSG recommends that the IASB conduct post-implementation reviews of such standards in conjunction with reconsidering equity method of accounting.

Accordingly, though careful consideration to equity method of accounting would be reasonable, it should not be a priority for the IASB to address in the next three years.

■ **Inflation accounting**

Although there are a number of jurisdictions that have experienced inflation recently in the Asia-Oceania region, the AOSSG is not convinced that there is an urgent need to re-address inflation accounting, considering that IAS 29 *Financial Reporting in Hyperinflationary Economies* was recently revised. We also think that reflecting moderate levels of inflation in financial statements is considered to be reasonable by users of financial reports, and there is less enthusiasm to establish a unique accounting treatment in regard to inflation accounting.

Although the AOSSG does not disagree with short-term fixes to some accounting treatments (e.g., revaluation model of property, plant and equipment under IAS 16) or seeking academic

research on the issue, the AOSSG does not believe that inflation accounting is a priority for the IASB in the next three years.

Appendix-II: The AOSSG analysis of the possible projects identified in the Appendix C of the consultation document

Project Description	Relevancy ¹	Urgency	Required resource ²	Priority ³	AOSSG comments
Agriculture, particularly bearer biological assets	High	High	Limited	Very High	We believe that this is one of the highest priorities for the IASB in the next three years. Our working group has explored the issues, and we are pleased to provide continued assistance to the IASB.
Business combinations between entities under common control	High	Mode rate	Limited	High	There are several jurisdictions in our region, where most entities are controlled by government or conglomerate entities. Thus, we believe that this is one of the highest priorities for the IASB for the next three years.
Country-by-country reporting	Low	Medi um	Limited	Low	It is unclear to us that this reporting would be decision-useful in capital markets or to business counterparties. The motivations for requiring it appear to be in some sense regulatory, and we are inclined to believe that those wanting such reporting could secure it by other means.
Discount rate	Mediu m	Medi um	Moderate	High	Although this is of some relevance, it may not be the highest priorities; however, it may be sensible to start with research initiatives. As such we plan to conduct research in this respect.
Earnings per share	Mediu m	Low	Limited	Low	Although there is scope for simplification, in our experience the existing complexities are not causing significant difficulties in the market. In addition, it would be cost-effective if the IASB first addresses cross-cutting issues, before undertaking the project.
Emissions trading schemes	Mediu m	Unce rtain	Moderate	High	Having recognised the relevance of the topic, we are uncertain if the project is particularly urgent.
Equity method of accounting	Mediu m	Low	Uncertain	Low	Considering that IFRS 10-12 were published recently, we believe that this should be considered in conjunction with their post-implementation reviews.
Extractive activities	Mediu m	Medi um	Large	High	Although this is important to certain jurisdictions, it would be resource intensive project. Therefore, on balance, we feel that this is not necessarily the highest priority.
Financial instruments with characteristics of equity	Mediu m	Medi um	Large	Mod erate - High	Although this issue is gaining further importance, there would be significant challenges to address implications to national laws (e.g., Companies Act.); thus we recommend careful considerations before undertaking the project.
Financial statement presentation – including consideration of other	High	High	Large	Very High	We do not concur with giving life to financial statement presentation project itself, having regard to the experience during several years; however, we believe that consideration to the role of OCI is of high importance. We are willing to seek opportunities for

¹ 'Relevancy' denotes the expected degree of impact by undertaking the project against the objective of contributing to high quality financial reporting in today's environment, which is rated by High, Medium and Low.

² 'Required resource' denotes the total amount of resource anticipated to undertake the project, having noted that the IASB could also draw on NSS or AOSSG resources.

³ Priority is rated, having considered relevancy and urgency, though availability of resource (including those that can be provided by the AOSSG) is taken into account in some respects.

Project Description	Relevance ¹	Urgency	Required resource ²	Priority ³	AOSSG comments
comprehensive income					collaborative work with the IASB.
Foreign currency translation	Uncertain	High	Uncertain	High	Members identified various challenges associated with implementation of IAS 21. Depending on the project scope, the required resources will vary significantly; thus it may be sensible to start with research initiatives. Certain AOSSG members plan to undertake further research on IAS 21 and would be pleased to share their findings with the IASB.
Government grants	Medium	Low	Limited	Moderate	The case for undertaking a project may be compelling, though we do not see this as especially urgent.
Income taxes	Medium	Medium	Uncertain	Moderate	IAS 21 is particularly challenging to some jurisdictions, based on legal requirements around the tax base. Depending on the project specification, it may end up in a complete-rewrite of the standard; however, we do not believe it is of the highest priorities.
Inflation accounting (revisions to IAS 29)	Low	Low	Limited	Low	We are not convinced that this project is particularly relevant or urgent, considering that IAS 29 was revised recently.
Intangible assets	High	Medium	Uncertain	High	We believe that IAS 38 should be examined, in combination with post-implementation review of the standard.
Interim reporting	Medium	Low	Moderate	Low	While acknowledging the particular importance to jurisdictions that have quarterly reporting requirements, we do not see it an urgent issue before some major jurisdictions (e.g. US and Japan) decide to require IFRS to their domestic use.
Islamic (Shariah-compliant) transactions and instruments	Medium	Medium	Uncertain	High	This is one of the unique topics for the Asia-Oceania region, and we attach a priority for the project. While it is difficult to discern the prescription, it may be sensible to conduct research initiatives in a more extensive level. Our Islamic Working Group suggests establishment of the advisory group (see Appendix-III), and we will be pleased to provide assistance.
Liabilities – amendments to IAS 37	Medium	Medium	Moderate	Moderate - High	A limited scope project (focusing on consistency with other standards (<i>Leases</i> and <i>Revenue recognition</i>) once these projects are finalised) may be relevant.
Other comprehensive income	High	High	Large	Very High	This is one of the highest priorities, in combination with discussion about the conceptual framework. Financial statement presentation See our comment on ‘Financial statement presentation – including consideration of other comprehensive income.’
Post-employment benefits (including pensions)	Medium	Medium	Uncertain	Moderate	Since IAS 19 is a recently completed project, we do not attach high priorities for the project.
Presentation and disclosure standard	High	High	Large	Uncertain / Very High	We agree with the relevance and urgency on conducting overhaul of disclosure requirements, but we are not sure if the development of a single IFRS, replacing the existing piecemeal requirements is superior to the idea of developing a robust disclosure framework and

Project Description	Relevance ¹	Urgency	Required resource ²	Priority ³	AOSSG comments
					examining disclosure requirements within respective standards.
Rate-regulated activities	Medium	Medium	Medium	High	There are differing views around the importance of the project. We recommend the IASB undertake further fact-finding studies before determining a direction.
Share-based payment	Medium	Low	Limited	Moderate	Considering the research undertaken by some national standard setters, we support narrow-scope improvements to address the concerns about a lack of clarity in the IFRS. We do not attach priority to a broader project.

Appendix-III: The AOSSG Islamic Finance Working Group Comments

30 November 2011

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr Hoogervorst

Asian-Oceanian Standard-Setters Group (“AOSSG”) Islamic Finance Working Group Comments on IASB’s *Agenda Consultation 2011*

The AOSSG Islamic Finance Working Groupⁱ is heartened by the inclusion of Islamic transactions and instruments as a new project suggestion in IASB’s *Agenda Consultation 2011*.

We believe that the best way to address Islamic financial reporting issues would be through the establishment of an advisory group to provide recommendations on both strategic and technical matters to the IASB. In pursuing an agenda on Islamic financial reporting, there are several non-technical and technical considerations that the working group would like to highlight to the IASB.

Our views are elaborated in greater detail in the following responses to the questions posed in *Agenda Consultation 2011*ⁱⁱ:

Question 1

What do you think should be the IASB’s strategic priorities, and how should it balance them over the next three years?

- (a) Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?*
- (b) How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB’s agenda, please include these in your answer.*

The Working Group believes that in addition to the broad categories of developing standards and maintaining existing standards, the IASB would also need to include outreach and advocacy as part of its strategic priorities, especially with regards to Islamic transactions and instruments.

In the past, IASB has had little engagement with Islamic finance stakeholders, and had not considered Islamic transactions and instruments in developing the IFRS. However, Islamic finance is no longer a niche market that the IASB can afford to ignore. Although admittedly

dwarfed by the conventional financial industry, Islamic finance has been experiencing rapid growth in banking, capital markets, insurance, and asset management. Moreover, many mainstream financial institutions and entities are also involved in Islamic finance. Thus, the reporting of Islamic transactions could well affect ‘conventional’ financial statements as well.

Perhaps due in part to this lack of engagement, there is oftentimes misunderstanding as to how IFRS would apply to an Islamic transaction, or dissatisfaction that their application may not appropriately reflect an Islamic transaction. We believe that the IASB would need to increase its outreach efforts in jurisdictions where Islamic finance is significant, but where IFRS are less accepted, in order to understand local concerns and take steps to alleviate those concerns.

In pursuing these outreach and advocacy initiatives, we would like to highlight that there are some non-technical aspects of reporting Islamic transactions that the IASB needs to be aware of and be sensitive to. These are as follows:

(a) Exceptions for Islamic finance in IFRS jurisdictions

The Working Group found that even in jurisdictions that are otherwise deemed IFRS-compliant, carve-outs or exceptions from IFRS requirements may be made for Islamic transactions and/or Islamic financial institutions (IFIs).

(b) Lack of national standard setters

Some jurisdictions, especially in the Middle East, do not have national standard-setters. The standards which would apply to financial reporting may instead depend on regulatory directives, industry practice, or auditors’ recommendations. Thus, the IASB’s would need to carefully identify who would be the appropriate parties to engage in discussion on financial reporting matters. Many of the AOSSG members may be able to assist the IASB in this respect.

(c) Shariah acceptance

Unlike western nations where separation of church and state characterises modern life, religion continues to play a pivotal role in many Muslim-majority countries. Given that Islam does not make a distinction between sacred and secular, the opinions of respected Shariah scholars in some jurisdictions can significantly impact activities seemingly unrelated to religion – such as financial reporting.

In the Working Group’s experience, it is sometimes not enough to demonstrate the quality and relevance of IFRS to stakeholders. They often need to be persuaded by evidence of Shariah acceptance. Indications of approval from the relevant Shariah advisor or advisory body in a particular jurisdiction can be crucial in advocating the application of IFRS to Islamic transactions. Naturally, obtaining such an approval would require the advocate to have a working knowledge of Shariah and the ability to communicate financial reporting concepts in terms that are understandable to the Shariah advisors or advisory bodies.

Question 2

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

(a) Considering the various constraints, to which projects should the IASB give priority, and

why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice.

(b) Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

We note the demand on the IASB to allocate resources to various existing and proposed projects. While we consider addressing Islamic transactions and events to be a pressing matter, we do not think the IASB needs to establish a dedicated technical project to deal with it.

In the Working Group's experience, there certainly are issues that would require further consideration at both the framework and standards level. For example, the working group noted that Islamically-inclined investors and users tend to require information of a social reporting nature not normally provided by 'conventional' financial statements. Since the joint FASB/IASB conceptual framework project already includes a phase on the boundaries of financial reporting, these additional information needs could be taken into consideration during this phase of the project.

An example of an issue with recognition and measurement is the use of the term 'contractual obligation', which may be interpreted differently when applied to the ubiquitous *wa'd*, a promise given to indicate a party's willingness to engage in subsequent legs of a multi-arrangement transaction. Some consider *wa'd* to be, in substance, a contractual obligation while others do not. Such divergent interpretations could lead to inconsistent applications of standards such as IAS 39/IFRS 9, and impair the cross-border comparability of Islamic transactions. The Working Group notes that determining whether a transaction is due to a contractual obligation is not unique to Islamic finance - transactions mandated through regulatory directives may be similarly affected. Thus the issue could be addressed more comprehensively by the financial instruments project.

There are also some disclosure issues which reflect the structures used in Islamic finance. One example comes from Islamic insurance (Takaful). A common structure here involves one or more funds whose assets are deemed to belong to the policyholders, embedded within a normal shareholder company. In such circumstances, there are at least two separate pools of assets and liabilities, and it is decision-useful for investors and counterparties to have separate disclosures in respect of them. For the usual reasons, it is helpful for these to be made on a consistent basis, both within and across jurisdictions. Broadly similar issues exist in respect of the Profit Sharing Investment Accounts commonly used in Islamic banking. These could be addressed in the context of IAS 1 or of the proposed work on a presentation and disclosure standard.

The issues related to Islamic finance thus affect, and are affected by, many of the IASB's existing and proposed projects. Hence, it would be more practicable to address those issues within the projects at hand; a dedicated technical project on Islamic finance may be redundant and duplicate some of the work done on these other projects. The Working Group does note,

however, that Interpretations may be required to enhance clarity and promote consistent application of certain standards.

We understand that the IASB may need access to outside expertise to help address Islamic finance at the framework and standards level. We therefore propose that the IASB should form an advisory group of persons conversant with the financial reporting issues surrounding Islamic finance. It could provide recommendations to the IASB, and where necessary, form subcommittees to consider various technical issues at a project level. It could also be invaluable in assisting with the outreach and advocacy initiatives discussed earlier.

Conclusion

The Working Group supports the suggestion to address Islamic transactions and instruments, and suggests the formation of an advisory group to assist the IASB in handling the subject. The advisory group's responsibilities could include the following:

- (a) Assisting the IASB in outreach and advocacy initiatives, which may include:
 - i. Engaging with stakeholders to understand concerns relating to the application of IFRS to Islamic transactions;
 - ii. Engaging with national standard setters and other relevant bodies to demonstrate the quality and relevance of IFRS;
 - iii. Engaging with relevant Shariah scholars, advisors, or advisory bodies, as necessary.
- (b) Advising the IASB on matters from an Islamic perspective in the development of the *Conceptual Framework*.
- (c) Undertaking research and making recommendations to the IASB on technical projects, particularly with regards to:
 - i. The applicability of existing and proposed IFRS requirements to Islamic transactions;
 - ii. Additional disclosure requirements for Islamic transactions;
 - iii. The development of Interpretations, where necessary.

The advantages of establishing an advisory group are that (1) there would be a formal structure for experts in the field of Islamic finance to provide their recommendations to the IASB; (2) it alleviates any concerns that IASB may not have adequate expertise to deal with the subject matter; (3) it allows the IASB's resources to be allocated to other projects; and (4) it avoids the duplication of work by different project teams tackling similar issues.

The AOSSG Islamic Finance Working Group would be happy to assist the IASB in identifying potential advisory group members and assisting in the work of the group.

We thank you for this opportunity to provide our input to the IASB's agenda plans. If you have any queries regarding this submission, or require further information on any aspect of Islamic finance, the Working Group would be pleased to offer its assistance.

Yours sincerely,



Mohammad Faiz Azmi
Leader of the AOSSG Islamic Finance Working Group

NOTES

ⁱ Since its formation in late 2009, the AOSSG Islamic Finance Working Group has been active in providing its views on how IFRS would impact the reporting of Islamic financial transactions, as well as explaining how the unique features of Islamic transactions may need to be taken into consideration in developing financial reporting standards. The working group comprises staff from the standard-setters of Australia, China, Dubai, Korea, Malaysia, Pakistan, and Saudi Arabia. To view the Working Group's past submissions to the IASB as well as its Research Paper *Financial Reporting Issues relating to Islamic Finance*, please visit its webpage at <http://www.aossg.org/working-groups/financial-reporting-relating-to-islamic-finance>.

ⁱ The comments in this letter are additional to those in the main letter from the AOSSG dated 30 November 2011, and focus only on issues that are specific to Islamic finance. The AOSSG Islamic Finance Working Group had sought comment and feedback from AOSSG members prior to finalising this letter, and none of those members have expressed significant disagreements.