

Communiqué – November 2019

The Asian-Oceanian Standard-Setters Group (AOSSG) held its Eleventh Annual Meeting on November 12-13, 2019 at Hotel Cidade De Goa, Goa, India. The meeting was hosted by The Institute of Chartered Accountants of India (ICAI) and was attended by 19 member standard-setters of AOSSG. The meeting was also attended by the representatives of the International Accounting Standards Board (IASB) and the IFRS Foundation.

The participating jurisdictions were Australia, Bangladesh, Brunei, Cambodia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Nepal, New Zealand, Philippines, Saudi, Singapore, Sri Lanka, Thailand and Vietnam.

Mr. M.P. Vijay Kumar, Chairman, Accounting Standards Board, ICAI welcomed the meeting participants on behalf of ICAI. He also welcomed the Chief Guest of the meeting, Dr. Pramod Sawant, Chief Minister, Goa State, Mr. Nilesh Vikamsey, Past President, ICAI, Ms. Sue Llyod, Vice-Chair, IASB, Mr. Yibin Gao, the outgoing Chair, AOSSG, Dr. S. B. Zaware, the incoming Chair, AOSSG, Mr. Nishan Fernando, the incoming Vice-Chair, AOSSG and members of Accounting Standards Board. Mr. Nilesh Vikamsey presented the opening remarks for the meeting. Mr. Vinod Rai, IFRS Foundation Trustee from India, Mr. Prafulla Chhajed, President ICAI and Mr. Atul Kumar Gupta, Vice-President, ICAI shared their views and extended good wishes through video messages.

Mr. Yibin Gao, while addressing the meeting participants, extended his gratitude to ICAI for hosting the 11th Annual AOSSG Meeting and thanked the AOSSG members for their trust and help extended to China Secretariat during his term as Chair, AOSSG. He appreciated Dr. S. B. Zaware and CAC members for their active inputs and co-operation in the development of AOSSG. As a ceremonial practice, Mr. Yibin Gao, while handing over the charge to the incoming Chair, Dr. S. B. Zaware, handed over the meeting bell.

Dr. S. B. Zaware presented his acceptance speech as Chair, AOSSG and thanked the AOSSG members for reposing trust and confidence in India. He also thanked Mr. Yibin Gao and his team for their valuable support and guidance for the past two years. He congratulated Mr. Nishan Fernando from Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) for taking the position of Vice-Chair, AOSSG.

Mr. Nishan Fernando, while accepting the office as Vice-Chair, AOSSG congratulated Dr. S. B. Zaware for taking the position as Chair, AOSSG and appreciated the efforts of the outgoing Chair, Mr. Yibin Gao. On behalf of CA Sri Lanka, he extended his gratitude to all the AOSSG members for supporting his election as Vice-Chair, AOSSG.

The meeting Chief Guest, Dr. Pramod Sawant, CM, Goa State, addressed the meeting participants by welcoming the AOSSG members to Goa and congratulated, Dr. S. B. Zaware, on his milestone achievement of taking over as Chair, AOSSG. He also mentioned that India is committed to contribute to the accounting profession at domestic and international level.

Vote of thanks was placed on records by Mr. Nihar Jambusaria, Chairman, Ind AS Implementation Committee, ICAI.

The IASB was represented at the meeting by Ms. Sue Llyod, Vice-Chair, IASB, Ms. Ann Tarca, Board Member and Ms. Michelle Sansom, Associate Director of the IFRS Foundation. The Director of the IFRS Foundation Asia-Oceanian Regional Office in Tokyo, Mr. Makoto Takahashi also attended the meeting.

AOSSG-specific affairs (Members-only session)

Members were informed of the following key activities in 2019 and plans for 2020:

- Meeting with the Trustees of the IFRS Foundation;
- Mentoring programme;
- AOSSG membership;
- AOSSG draft strategy proposals; and
- AOSSG working group evaluation.

Members discussed the draft strategy proposals prepared by the CAC members and agreed with the new objectives and directions of the AOSSG.

Members noted the benefits and importance of technical discussions among AOSSG members and discussed how they could enhance their participation in future technical activities.

Update and discussion on IASB projects

Ms. Sue Llyod, Ms. Ann Tarca and Ms. Michelle Sansom provided an update on 2018-19 strategic activities and insights of the upcoming projects of IASB for 2020, viz. Exposure Draft on Primary Financial Statements, Discussion paper on Goodwill and Impairment, Exposure Draft on Rate-regulated Activities and Management Commentary. IASB also shared an update on the IASB's 2020 Agenda Consultation project, stakeholders' inputs in this area will form the basis for IASB's work plan during 2022 to 2026.

Amendments to IFRS 17

The Insurance Working Group (WG) leader, the KASB, shared the feedback received from the WG members on the Exposure Draft 'Amendments to IFRS 17' issued by the IASB with the IASB representatives and AOSSG members. AOSSG members generally agreed with the proposed amendments. However, the members had concerns about the scope of reinsurance contracts held that provide proportionate coverage and had mixed views on the proposed effective date of IFRS 17.

Preliminary comments on the potential PIR of IFRS 10, 11 and 12

The IASB activated the Post-implementation Review (PIR) of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities" after its September 2019 Board meeting. In relation to this PIR, the ASBJ, as the leader of the Business Groups and Assets Working Group, received a request from IASB staff to gather the views within the Asian-Oceanian Region regarding the potential issues to be included in the forthcoming Request for Information (RFI). In preparation for this meeting, the ASBJ had asked members of the Working Group for preliminary views on IFRS 10, 11 and 12.

In this session, the ASBJ shared the views received and facilitated an open discussion inviting AOSSG members for any additional issues that should be considered by the IASB to be included in the RFI. The discussions at the meeting were expected to be shared at the forthcoming ASAF meeting in December 2019.

IFRS 17 implementation steps and the progress of the project of Meritz insurance

The KASB's visiting fellow from Meritz Fire & Marine, one of the major general insurers in Korea, introduced the company's IFRS 17 implementation process. He shared with the IASB representatives and AOSSG members how Meritz developed its IT systems for the implementation of IFRS 17 and how they overcame the challenges they faced. He said that Meritz had completed the IFRS 17 project in April 2019.

An Initiative to Enhance the Quality of Valuations in Financial Reporting

The Hong Kong Institute of CPA (HKICPA) shared its experience and initiative to enhance the quality of valuations in the Hong Kong market. The initiative aims to promote competence and professional valuation quality to ensure that Hong Kong maintains its reputation as a global capital market. The initiative is a collaboration with key stakeholders, including the capital market and auditor regulators, and the International Valuation Standards Council (collectively called "the Taskforce").

The Taskforce issued a consultation paper in July 2019, which sets out proposals for, among other things, the competencies to demonstrate, and the acceptable technical standard and performance framework. The Taskforce will subsequently decide the mechanism for regulating and licensing valuers in Hong Kong.

AOSSG members were reminded that fair valuation is a prevalent and important element of financial reporting and that accounting standard-setters have a role to play in enhancing and upholding the quality of financial reporting, consistent with the AOSSG's new strategic objectives. HKICPA is prepared to connect member jurisdictions with the IVSC.

Survey on IFRS 16, Leases: Initial Implementation Issues

The Institute of Chartered Accountants of India, being leader of AOSSG Sub-working Group on Leases, conducted a questionnaire based survey on IFRS 16, Leases, to understand application/choices exercised by entities while applying the Standard and implementation issues being faced, if any. Feedback was received from various jurisdictions of AOSSG (5 responses) and Indian stakeholders (70 responses) on the survey. Questions-wise responses received along with various issues highlighted in the responses to the survey were presented at the meeting. Some of the major challenges/issues/concerns raised were highlighted at the meeting which were as follows:

1. Judgement is involved in determination of an incremental borrowing rate (IBR) for lessee. The IASB Vice-Chair responded that IASB recognises that there is judgement involved in calculating IBR and that appropriate assessment of the facts and circumstances is required to make judgements. However, since IASB did not want to be prescriptive w.r.t determination of IBR, it

was considered appropriate to leave to the entities judgement. Similar issues regarding judgment involved in identification of lease and determination of lease term were also raised.

2. Foreign currency lease liability, being monetary item. needs to be translated into the functional currency of the lessee at every reporting date using the closing rate and, accordingly, exchange differences have to be recognised in profit or loss, which bring volatility in the profit or loss for Lessees (specifically for Aviation industry). The IASB Vice-Chair responded that there could not be different treatment under IAS 21 for foreign currency exchange differences for different monetary liabilities, i.e., lease liability and other monetary liabilities just because there is volatility. IASB Vice-Chair also mentioned that since entities are hedging the foreign currency exchange exposures, it may not be appropriate to take foreign currency exchange differences in the carrying amount of Right to Use assets.
3. Tax issues have been raised by various jurisdictions because of recognition of asset, depreciation and amortisation in the books of both lessor and lessee. The IASB Vice-Chair mentioned that although through new lease standard changes have been brought out in lessee accounting but in some jurisdictions the tax treatment is not yet changed, therefore, there are tax issues. IASB Vice-Chair mentioned that the IASB has issued an ED of amendments in IAS 12 to address certain tax related issues arising due to new lease Standard.
4. IFRS 16 prescribes dual lease accounting model in the books of the Lessor and single lease accounting model for lessee and, accordingly, both the lessor and lessee are capturing the asset and recording depreciation in profit or loss. The IASB Vice-Chair mentioned that while drafting the new lease standard the IASB proposed to change the lessor accounting also which were supposed to be symmetrical with lessee accounting, however, the IASB received feedback for not doing so since there were less problems in lessor accounting under IAS 17 compared to accounting in the books of lessee. Therefore, IASB decided to continue with IAS 17 lessor accounting model.

Primary Financial Statements

The Presentation and Disclosure Working Group (WG) leader, the KASB, presented and led a discussion on the analysis of the IASB's following tentative decisions in the Primary Financial Statements project: operating profit defined as a residual and eliminating classification option of dividends received in the statement of cash flows for non-financial entities. The KASB also suggested a possible alternative for those tentative decisions and sought feedback from AOSSG members.

Many AOSSG members were supportive of the KASB's views on the IASB's tentative decisions and possible suggestions mainly because operating profit is a very important subtotal which represents the entity's margin directly from the entity's main business. They also agreed that the operating subtotal is commonly used for regulatory purposes and contributions based on the company's social responsibility activity are not operating in nature.

Some AOSSG members were supportive of the IASB's decisions mainly because users can obtain relevant information from disclosures and adjust the subtotal to the number they need. Having said

that, one of them sympathised with the negative impact of the residual approach to define operating profit on the company's social responsibility.

Post Implementation Review on IFRS 9 Financial Instruments – Sri Lanka

Internationally, IFRS 9 is effective for financial periods beginning on or after 01st January 2018. Having adopted the standard with the same effective date, CA Sri Lanka conducted a Post Implementation Review (PIR) covering various stakeholders including Licensed Commercial Banks, Licensed Specialised Banks, Registered Finance Companies, Specialised Leasing Companies and practicing Chartered Accountants to highlight their concerns and key issues.

The first issue highlighted was that most of the risk assessments had been product focused than borrower focused which resulted in ECL provisioning for a product category to be uniform irrespective of different risk levels of the customers. The next confusion which arose was whether any part of these related-party loans was to be treated as capital contribution as per IAS 28 instead of a financial asset / liability as per IFRS 9 and in this regard clear guidelines were provided. Furthermore, in relation to the moratorium being offered to the tourism sector consequent to the recent terrorist attack, guidance was issued in recognition of the interest and capital. The representatives from IASB advised each jurisdiction to keep them and the market informed, when the local national standard setter provides temporary or permanent reporting reliefs. It was also noted that in Sri Lanka due to the rebuttable presumption of 30 – 90 days against the credit management cycle of 180 days, SMEs have failed to absorb the additional expected credit losses. This has resulted in regulatory relaxations to be made and to issue guidance stating that the management judgment has to be exercised in deciding to rebut the presumption. Finally, with respect to the short term liquidity support facilities, where it is known at the inception that the facilities would be rolled over without being settled for further periods, the industry was advised to revise the loan covenants, in an effort to avoid loans technically becoming past dues at the first due settlement date.

Status of adopting IFRS in Bangladesh

In November 2018 at the 10th AOSSG Annual Meeting, the Financial Reporting Council (FRC) of Bangladesh was admitted as an AOSSG member. Accordingly, 2019 Annual Meeting was the first annual meeting attended by FRC, Bangladesh.

At the 2019 Annual Meeting, FRC, Bangladesh delegation has made an half-hour brief presentation on adoption, application, and work performed by Bangladesh jurisdiction on IFRS during the last two decades and highlighted the pros and cons of its recent transition from self-regulation to Government Oversight. The presentation also included information on FRC management and its future plans. The presentation was appreciated by the attendees and by the IASB delegation.

IFRS 15 Revenue from Contracts with Customers application to Real Estate Sector

HKICPA and CA Sri Lanka jointly presented the findings of an AOSSG survey. The objective of the survey was to analyse issues encountered by member jurisdictions in applying the 'over time' or

‘point in time’ revenue recognition criteria under IFRS 15 Revenue from Contracts with Customers and determine whether any clarifications to the Standard are necessary. The survey focused on the real estate industry, and specifically how paragraph 35 of IFRS 15 is applied to sales of residential multi-unit properties.

It was found that:

- IFRS 15.35(a) and 35(b) are not applicable to the property sales in all jurisdictions.
- One jurisdiction has local regulations that provide the developers ‘rights to payment’ - (the criterion under IFRS 15.35(c)) and so the sales qualify for revenue recognition over the construction period. Most situations in other jurisdictions do not meet IFRS 15.35 and accordingly revenue is recognized at the time control of the property is transferred to the customer, which is usually on physical possession of the property by the customer.
- Many developers found it challenging to apply IFRS 15.35(c), in determining the enforceability of the right to payment particularly in the absence of legal precedent.
- In some jurisdictions standard contracts are used. When there are no standard contracts, the revenue recognition assessment is performed based on case-specific facts and circumstances.

AOSSG members discussed the importance of understanding how the contractual terms, legal precedent cases and customary business practices within the industry interact with the legal system of a jurisdiction when assessing enforceability, and also the need to apply judgement and reassess the revenue recognition if new information comes to light. It was observed that the courts may override the contractual terms and the compensation to the developers upon customer default does not always cover the developer’s costs incurred plus a reasonable margin as required to satisfy the ‘over time revenue recognition’.

HKICPA shared that the ‘rights to payment’ criterion under IFRS 15.35(c) has also impacted construction services industries including, in Hong Kong, the IPO sponsor market. The meeting did not identify any major concerns that would suggest there is a need to clarify IFRS 15. AOSSG members were encouraged to reach out to other members and the IASB/IFRS Interpretations Committee if they encounter issues.

Accounting Policy choices in IFRS Standards

Malaysian Accounting Standards Board staff presented a paper on accounting policy choices available in IFRS Standards. The topic identified the nature of the policy choices available, including whether the choices must be made on an item-by-item or class-by-class basis and whether they are irrevocable or revocable choices.

The presentation also considered the available evidence, including the Basis for Conclusions to the relevant IFRS Standards, on why the choices had been made available and the IASB’s reasoning for them being in a particular form.

The meeting discussion highlighted that policy choices are often provided as a means to manage change from a wide variety of jurisdictional practices to more consistent and comparable international practice. The policy choices can facilitate issuing an IFRS Standard that brings about key

improvements while acknowledging that it may take further efforts to address particular transactions towards a single international accounting practice.

The discussion also highlighted that there may be a need to more formally consider the particular nature of any further policy choices granted when developing future IFRS Standards or in revising the policy choices in existing IFRS Standards.

It was acknowledged at the meeting that, as standard setters, we aim to ensure that a single accounting policy is applied to each particular set of circumstances to help ensure comparability of financial reporting. This is in the best interests of meeting the needs of financial statement users and the IASB seeks to keep policy choices to a minimum.

CLOSING REMARKS

Ms. Sue Lloyd, Vice-Chair, IASB mentioned that it is always a pleasure to attend the AOSSG meetings as there are always thought provoking discussions. Further, she also mentioned that as a standard-setter it is always interesting to know the experiences shared by the AOSSG members on applying IFRSs and the implementation challenges the jurisdictions face. IASB Board Member, Ms. Ann Tarca thanked the meeting participants for attending the Outreach Event on “Extractive Activities” and requested members to share their feedbacks on the project.

Mr. Mahesh Khanal, Chair, Accounting Standards Board, Nepal expressed gratitude for the invitation to host the 12th Annual AOSSG Meeting in 2020.

Dr. S. B. Zaware, Dr. Sanjeev Singhal, Mr. M. P. Vijay Kumar and Mr. Nishan Fernando thanked AOSSG members and IASB representatives for their active participation in the discussions. They pledged to work to achieve the objectives of AOSSG in collaboration with all members. Mr. M. P. Vijay Kumar placed on records special thanks to the Accounting Standards Board of Nepal for hosting the 2020 AOSSG Annual Meeting.