

Communiqué – November 2016

The Asian-Oceanian Standard-Setters Group (AOSSG) held its eighth annual meeting on the 29th and 30th of November 2016 at the InterContinental Hotel, Wellington, New Zealand. The meeting was hosted by the External Reporting Board (XRB) of New Zealand and attended by 16 member standard-setters as well as representatives of the International Accounting Standards Board (IASB) and the IFRS Foundation.

The participating jurisdictions were standard setters from Australia, Cambodia, China, Hong Kong, Indonesia, Japan, Korea, Macao, Malaysia, Nepal, New Zealand, Philippines, Singapore, Sri Lanka, Thailand and Vietnam.

Dr. Jee In Jang, AOSSG Chair, welcomed members to the eighth Annual AOSSG Meeting. Dr. Jang shared with attendees the AOSSG's main achievements of this year. In particular, he highlighted the significant progress on implementing the AOSSG's Mentoring Programme, by making an announcement that Vietnam agreed to participate as a mentee in the Mentoring Programme. Dr. Jang also expressed his desire to continue to work towards improving the structure of the AOSSG in 2017.

As a representative of the hosting country, Mr. Graeme Mitchell, Chair of the XRB, welcomed members to the eighth Annual AOSSG Meeting. He highlighted that the XRB is an active participant and supporter of the AOSSG. He said that New Zealand's involvement in AOSSG activities is significant in carrying out the XRB's strategy initiative to be involved with its regional and international stakeholders. He also mentioned that New Zealand, as an adopter and implementer of IFRS, has a key requirement to be active and involved in the IASB's agenda setting and projects.

At the opening ceremony, the Hon. Paul Goldsmith, Minister of Commerce in New Zealand, provided the keynote address. He pointed out that high-quality financial reporting helps New Zealand build a more productive and competitive economy, by attracting high-quality business investment into New Zealand and assisting entities to compete internationally and to enhance their accountability to stakeholders. He said that New Zealand, as an early adopter of IFRS, has been involved actively with the IASB's standard development process and will continue to do so. He also mentioned that it is important from a government perspective that New Zealand plays an active role in the AOSSG.

The IASB was represented at the meeting by the Chair, Mr. Hans Hoogervorst, the Vice-Chair, Ms. Sue Lloyd, and Board members Mr. Takatsugu Ochi and Mr. Wei-Guo Zhang. Also, Mr. Mitsuhiro Takemura and Ms. Erika Shimoyama, respectively the Director and Practice Fellow of the IFRS Foundation Asia-Oceania Regional Office in Tokyo, attended the meeting.

AOSSG-specific affairs (Members-only session)

Members discussed the progress of action plans and next steps against the AOSSG Strategic Plan 2015–2019. Specifically, members agreed that the AOSSG will focus on the following activities in 2017:

- provide assistance to Vietnam as part of the AOSSG Mentoring programme; and
- improve the structure and operation of the AOSSG Working Groups.

Members were informed of the summary feedback of the AOSSG Working Group survey and discussed the recommendations thereof. Members agreed that the number of WGs should be rationalized and that the AOSSG should focus on selected projects or activities given that many members have resource constraints. The prioritization of projects or activities will be decided in 2017.

Update and discussion on IASB projects

The IASB provided project updates on Insurance Contracts, Financial Instruments with the Characteristics of Equity, Conceptual Framework and Materiality Practice Statement.

Disclosure Initiative (Break-out session)

The meeting participants were divided into three groups to discuss issues relating to the IASB's upcoming discussion paper on 'Principles of Disclosure', including:

- whether the principles of effective communication that will be proposed in the discussion paper are appropriate; and
- whether the IASB should develop guidance for the use of alternative performance measures in the financial statements such as operating profit, EBIT and EBITDA.

Some of the points noted in the group discussions are:

- suggestion to reduce the number of the principles for effective communication proposed by the IASB from seven to three;
- concern with the enforceability of the principles for effective communication;
- overall agreement that the IASB needs to do something about the disclosure of alternative performance measures;
- suggestion that the IASB should at least define EBIT; and
- concern that even if the IASB sets the requirements, or provides guidance, of alternative performance measures, users may adjust the information as environment and situation of an entity change.

The groups reported back to the meeting in plenary session. The outcomes of the discussion were collated for presentation to the IASB's Accounting Standards Advisory Forum on 8-9 December, 2016.

Research outcome on Business Combination under Common Control (BCUCC)

Hong Kong Institute of Certified Public Accountants (HKICPA) presented and led a discussion on the possible principles that could form the basis for accounting for BCUCC. This discussion is the first in a series of future discussions with the AOSSG and aims to provide input to the IASB.

The discussion considered the Conceptual Framework's¹ application to a business combination and a BCUCC under three distinct scenarios: (i) privately-held entities; (ii) listed entities; and (iii) for the purpose of an initial public offering (IPO). Members discussed the following considerations that could form the basis for BCUCC accounting:

- who is the reporting entity;
- who are the primary users of the reporting entity;
- what is the economic substance of the business combination versus the BCUCC; and
- what information about the BCUCC would be relevant and faithfully representative to primary users.

Two additional considerations were raised as possible principles for BCUCC accounting:

- whether the consideration paid was determined at arms-length; and
- whether the newly combined group could exist as a stand-alone reporting entity and therefore would be more useful reported as such.

¹ Per the latest IASB tentative decisions in October 2016

Members also shared the level of BCUCC occurrence in their jurisdiction, including whether there is a local standard, guidance or regulation on the accounting for BCUCC, the common reasons why a BCUCC takes place, and some challenges in the accounting for a BCUCC.

HKICPA also presented an overview of their preliminary research findings on common control combinations that were undertaken by Hong Kong listed companies and companies preparing for an IPO from 2013 to 2015.

Implication of negative interest rate environment

The Accounting Standards Board of Japan (ASBJ) discussed the negative interest rate environment in Japan and its implications for accounting standards, including the discount rate to be used for discounting defined benefit pension obligations.

Research on user information needs

The New Zealand Accounting Standards Board (NZASB) presented a research report on the information needs of users of the financial statements of for-profit entities operating in New Zealand capital markets.

The research looked at whether financial statements are meeting users' needs, the usefulness of components of financial statements, whether some information provided is not useful and whether there is information not included that would be useful, together with the usefulness of supplementary information.

The effect of IFRS adoption in Korea for the last 5 years

The Korea Accounting Standards Board (KASB) presented a research report, 'the IFRS adoption in Korea: 5 years' experience and lessons'.

The research aimed to understand whether IFRS adoption in Korea aided in improving accounting transparency, deterring the so-called "Korea Discount", and ultimately leading to efficiently functioning capital markets given the culture, nature, and legal system unique to Korea.

In addition, the research provided some lessons Korea learned from IFRS adoption and implementation to help countries which plan to adopt IFRS or are in the process of adopting IFRS.

The effect of IFRS adoption in Australia

The Australian Accounting Standards Board (AASB) presented the findings of a review of IFRS adoption in Australia. Australia adopted IFRS in 2005 for all sectors (for-profit, public and not-for-profit) under its transaction neutral approach. The review consisted of a literature review and outreach activities across the nation to gather views from a wide range of stakeholders. The review found that:

- most of the research findings from high-quality published empirical studies generally support the view that IFRS adoption by for-profit entities has benefited the Australian economy;
- the IFRS transition process had been reasonably smooth for most sectors;
- one of the key benefits of adoption across all sectors is that it enables users and preparers to move between sectors, and between countries, with transferable knowledge and skills;
- some entities, in particular those that also operate in other countries that use IFRS, have experienced cost savings in preparing financial reports. However, in contrast, some small and medium-sized entities and not-for-profit entities have concerns regarding the costs of fully complying with IFRS, particularly the disclosure requirements; and
- although IFRS is currently viewed as an appropriate basis for not-for-profit entity reporting (both private and public sector), there is a need for more modifications and guidance to improve the quality and the cost efficiency of financial reporting by not-for-profit entities.

The findings from the review will be incorporated into future AASB work, such as the AASB's Agenda Consultation project and the Australian Reporting Framework project.

Conceptual Framework

The meeting discussed the progress of the IASB's redeliberations on the IASB's Exposure Draft (ED/2015/3) *Conceptual Framework for Financial Reporting*, including:

- the definition of a liability;
- the use of other comprehensive income (OCI); and
- the recycling of OCI.

Fair Value Measurement (Break-out session)

The meeting participants were divided into three groups to discuss the Post-Implementation Review of IFRS 13 being conducted by the IASB, including:

- major issues which have made the implementation of IFRS 13 challenging in each AOSSG jurisdiction; and
- any suggestions in relation to the implementation issues of fair value measurement for the IASB to consider.

Some of the points noted in the group discussions are:

- in applying IFRS 13, it is unclear which unit of account and which level of valuation (ie Level 1, 2 and 3) should be applied especially for non-financial instruments;
- there is a lack of guidance in IFRS 13 on which valuation method is more appropriate for certain circumstances;
- there are practical issues such as a lack of valuation experts, education, and regulation over valuation industry globally;
- concern with the amount of disclosure, especially for those related to Level 3;
- there are cases in which it is difficult to apply the concept, 'highest and best use'; and
- some assets are difficult to measure, including restricted assets (for examples, heritage assets), agricultural assets, intangibles, and financial instruments with various risks.

The groups reported back to the meeting in plenary session.

Post Implementation issues and challenges

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) provided an update on its implementation of IFRS and shared with members some post implementation issues. The following points were noted:

Implementation update

- All IFRSs have been adopted with the latest standards, IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, being adopted as Sri Lanka Financial Reporting Standards (SLFRS) with the same effective dates as IFRSs; and
- Guidance have been issued on 'Common Control Business Combinations' and on 'NPO/NGO reporting', the areas which are not covered specifically in IFRS.

Endorsement process

CA Sri Lanka applies a limited endorsement process as the IASB has already gone through a rigorous due process in developing IFRS. This enables the standard setter to adopt SLFRS with the same effective date as IFRS. However there has been questioning on the adequacy of this limited process. IASB Chair offered to assist in convincing the parties concerned on the adequacy of the limited process by CA Sri Lanka, if necessary.

Technical Issues

Attention of the IASB was drawn on the following matters based on the issues faced during the post implementation period:

- Clarify the meaning of ‘available for public use’ in the context of exemption granted on the requirement to prepare consolidated financial statements;
- Expedite ‘Common Control BC’ project;
- Consider allowing recognition of certain types of self-developed intangibles which is permitted in the case of business combinations and when purchased. The preparers of FS are resorting to innovative transactions to bring them in to the balance sheet; and
- Reconsider the requirement to measure at FV, the produce growing on bearer plants before harvesting.

In addition, CA Sri Lanka offered to share its experience and assist any member jurisdiction in implementation of IFRS.

Update on IFRS adoption and implementation issues

The Federation of Accounting Professions Under the Royal Patronage of his Majesty the King of Thailand (FAP) provided an update on the progress of its IFRS application. In 2016, Accounting Standards of Thailand were converged with IFRS as issued in 2015; 2016 was the first year to apply IAS 41 *Agriculture*, IFRS 4 *Insurance Contracts* and IFRIC 21 *Levies* in Thailand which affected listed companies in the agricultural industry and insurance industry.

The FAP also raised practical issues for fair value measurement in bearer livestock and agricultural produce.

IASB members expressed their views that it could be more appropriate to measure bearer livestock at fair value even though bearer livestock is used in the production or supply of agricultural produce because it could be sold as meat.

Update on plans/issues relating to IFRS adoption/application

The ASBJ provided an update on the application of IFRS in Japan, including recent developments in entities adopting IFRS voluntarily and Japan’s contributions to international communications regarding the concepts of profit or loss and recycling, and the accounting for goodwill.

Operation of Technical Support TFs: IFRS 9 and IFRS 15

The KASB introduced the purpose, process and structure of the Technical Support Task Forces (TFs) which were organized in 2016 for indentifying potential issues and helping domestic constituents in applying IFRS 9 and IFRS 15. The KASB explained some of the issues addressed at the TFs and highlighted the need to develop education materials based on examples and to share practical issues in each jurisdiction for the purpose of facilitating common interpretation of the requirements of new IFRSs.

A study of financial statements of Islamic Financial institutions

The meeting noted the activities of the AOSSG Islamic Finance Working Group, in particular findings of the Working Group's update on the study of the 132 Islamic financial institutions around the world and the financial reporting framework in those entities' jurisdictions.

This update was made based on the most recently available financial statements of the 132 Islamic financial institutions as of 1 October 2016, following the first study presented at the AOSSG 2014 annual meeting. The study further analysed the different accounting treatments of three common Islamic financial transactions: lessor accounting, classification of customer investment accounts and recognition and measurement of finance income. No significant differences were noted from the study presented in 2014 apart from an increase in the number of entities asserting compliance with IFRS.

Members considered that it was important to understand and establish why there are dual frameworks reported against by entities in certain jurisdictions.

Closing remarks

Mr. Hans Hoogervorst, IASB Chair, noted that all agenda topics were interesting and the discussions were productive and constructive. He emphasised that the AOSSG is an important partner of the IASB, and hoped to attend the Annual AOSSG meeting again in 2017.

Mr. Kai Di, Deputy Director General of China Accounting Standards Committee (CASC), expressed gratitude for allowing China to host the 2017 Annual AOSSG Meeting. He said that the CASC is scheduled to hold the meeting in November, however, the hosting city has yet to be decided.

Dr. Jee In Jang, Chair of AOSSG, expressed heartfelt gratitude to all of the attendees and particularly thanked the XRB of New Zealand for hosting this year's annual meeting. He said that the experiment at this meeting of holding breakout sessions was successful and the AOSSG would be able to make the 2017 meeting more effective, building on this year's experience. He also said that he will continue to pursue ways to improve the structure and activities of the AOSSG. He reiterated that he will negotiate with Vietnam about the participation in the Mentoring Programme. Lastly, he emphasised that it is important for AOSSG members to share IFRS implementation issues.

About Us

The Asian-Oceanian Standard-Setters Group (AOSSG) is a grouping of the accounting standard-setters in the Asian-Oceanian region. The group has been formed to discuss issues and share experiences on the adoption of International Financial Reporting Standards (IFRS) and to contribute to the development of a high-quality set of global accounting standards.

The AOSSG plans to play an important role in encouraging the adoption of IFRSs in the region.

The objectives of the AOSSG are to:

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

More information about the AOSSG is provided at <http://www.aoss.com/>.