

25 July 2011

Trustees of IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Trustees

**Re: IFRS Foundation Trustees – Strategy Review**

The Asian Oceanian Standard-setters Group (AOSSG) is pleased to respond to the request of the Trustees for comments on strategic issues.

The AOSSG currently has 25 member standard-setters from the Asian-Oceania 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 IFRSs 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 the diversity of views within the membership of which we become aware.

As communicated in the letter dated 24 February, 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 consideration of all significant technical aspects 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 most important.

Please see the Appendix for our comments referring to each section of the strategy review paper of the IFRS Foundation. Please do not hesitate to contact us, if you have any questions.

Yours faithfully



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Ikuo Nishikawa  
Chairman, AOSSG

## Appendix

### A. Mission: defining the public interest to which the IFRS Foundation is committed

#### *Purpose of financial reporting standards*

- 1.1. The AOSSG considers that the purpose of financial reporting standards stated in the Constitution is generally appropriate, as it states that standards should serve investors and other market participants in their economic and resource allocation decisions. However, the AOSSG is concerned that the first sentence in paragraph A1 might imply the Trustees should be concerned with the role of financial reporting (as opposed to the role of financial reporting standards), which the AOSSG notes should be left to the IASB.
- 1.2. In addition, the paper may have overlooked other important purposes of financial reporting standards. In many jurisdictions, financial reporting standards are designed to meet the needs of shareholders to evaluate whether management has prudently discharged their stewardship accountability, as well as those of creditors or suppliers to determine the level of debtor's solvency, which are other aspects of public interest.
- 1.3. Therefore, the AOSSG believes that the mission would be better represented by acknowledging that financial reporting standards should be developed *primarily* for a set of users such as investors and other market participants in their economic and resource allocation decisions, recognising other benefits as mentioned above.
- 1.4. The AOSSG believes that a more balanced statement of the mission would assist the IFRS Foundation in promoting IFRSs as a single set of high quality globally accepted financial reporting standards.
- 1.5. In clarifying the purpose, the AOSSG also recommends the Trustees specify that financial reporting standards stated in this section do not include IFRS-SMEs. Although stakeholders' awareness and the use of IFRS-SMEs have increased, stakeholders' needs and practitioners' sophistication vary significantly depending on the locale of SME environments. That standard is not designed to serve investors and other market participants.

#### *Adoption of IFRSs*

- 1.6. The AOSSG considers that the long-term objective of the global adoption of IFRSs is appropriate and that ‘convergence’ is a stepping stone towards the ultimate goal of adoption. However, there are instances where a jurisdiction only attempts to achieve a certain degree of proximity to IFRS and it is important to guard against those jurisdictions using the IFRS brand. That being said, there are legitimate obstacles to achieving the goal of adoption in many jurisdictions. In our experience, challenges arise from areas such as having politicians and bureaucrats understand the benefit, amending legal frameworks, designing endorsement processes, dealing with concerns over sovereign rights, handling difficulties arisen from placing or not placing domestically regulated entities (sometimes including small and even micro businesses) into the IASB envisaged categories, re-aligning educational initiatives and professional requirements, as well as establishing effective means for translation of all relevant materials (including those beyond the due process documents).
- 1.7. For example, in the Asia-Oceania region, there are instances where a jurisdiction is trying to achieve word-for-word convergence of standards, but chooses not to use the word ‘adoption’ to avoid impressions that the IFRS are automatically passed into law, thereby giving the perception of the loss of sovereign rights over the financial reporting framework for the jurisdiction. Some jurisdictions found the sovereign right issue as a significant challenge, because financial reporting is part of the overall corporate governance framework for the jurisdiction.
- 1.8. In addition, Islamic finance transactions, which are common in the region, often pose a challenge because of real or perceived differences between those transactions and ‘conventional’ transactions for which the IFRS requirements are developed. Some of our members are facing significant challenges to convince their stakeholders to accept IFRS requirements or the IASB’s framework, where transactions are initiated without giving due considerations to IFRS requirements.
- 1.9. Therefore, the AOSSG believes that the IFRS Foundation or IASB needs to devote more resources to understand the challenges that are leading some jurisdictions to create local variations of standards and how such issues could be addressed. There are separate roles for the IASB and Trustees in this respect. For example, the Trustees or Foundation may want to provide assistance in the areas of translation and education. The IASB’s role in this respect may be more limited, although it can ease the way to

adoption such as through IFRS 1 or well designed transitional provisions. While any move should not lower the quality of standards, the ultimate goal of global adoption can only be achieved via thorough examination of issues in each jurisdiction. The AOSSG is pleased to assist the IASB in identifying challenges and suggesting possible solutions.

### ***Scope of standards and IFRS activities***

1.10. The AOSSG acknowledges the resource constraints of the IASB and IFRS Foundation, and believes that the Trustees should have a full debate regarding strategies for optimal resource allocation rather than deferring the debate (for example, by concentrating too much on shorter term exigencies rather than longer term strategies). Investors in capital markets are interested in financial information about public sector entities, including governments, as demonstrated by recent events in Europe regarding sovereign debt. Furthermore, although the International Public Sector Accounting Standards Board uses IFRS as a foundation for many of its standards, it is now developing its own conceptual framework that has the potential to lead to public sector standards that may differ unnecessarily from IFRSs. In a similar vein, we also recommend the Trustees give consideration to a strategy around the development of financial reporting standards for non-profit entities. We also wonder how the Trustees may view the relationship that might need to be developed between financial reporting and the move to establish integrated reporting. These are all strategic direction that needs ventilation.

1.11. That being said, the AOSSG agrees, in terms of the more immediate agenda considerations of the IASB, the appropriate prioritisation is important to ensure that limited resources are utilised effectively and efficiently, where members have mixed views in regard to the scope of the standards and IFRS activities. Some members place an equal or greater importance on financial reporting standards of non-profit entities and/or public sector entities, while others give a priority to developing private sector standards. Such diverse views perhaps come from differing mandates of AOSSG members, where some members are responsible for financial reporting standards as a whole and other members are charged only with standards of private sector entities.

### ***Consistency of application and implementation***

- 1.12. The AOSSG believes that consistent application/implementation is no less important than the development of high quality financial reporting standards; thus, we welcome the suggestion that the Foundation will pursue this aspect in a number of ways.
- 1.13. AOSSG members sometimes perceive that the IFRS Foundation or IASB has relied too heavily on audit firms for consistent application of the IFRSs. While this approach has been generally successful in the past decade, it may be worth revisiting this issue, as we have found instances where audit firms do not necessarily share a common understanding of each IFRS that is consistent with the intentions of the IASB.
- 1.14. In addition, members have different views with regard to the role of the IFRS Interpretations Committee (the Committee). Depending upon the history of IFRSs application or the level of maturity in practice, some members are generally comfortable with the extent and speed of the Committee's activities. Others are of the view that the current level of activity is not sufficiently responsive to the global demands and question if the existing structure is conducive to achieving the objective of the IFRS Foundation. These members suggest that the Trustees give consideration to significant structural reforms, including the appropriateness of full-time membership or enhanced roles for Board members on implementation issues.
- 1.15. In carrying out interpretive work, there needs to be an in-depth understanding both of the underlying transactions and of relevant financial reporting standards. National standard setters or their regional groups (such as the AOSSG) can play a very important role in identifying issues, proposing possible solutions, and providing timely responses. In the Asia Oceania region, there is the opportunity to also do this through the Asia-Oceania liaison office. In this context, it is important to establish a formal channel between national standard setter(s) or groups of national standard setters (such as the AOSSG and GLASS) and the IASB and its Interpretations Committee so that issues are referred on an efficient basis. In addition, regional bodies such as the AOSSG can help establish whether an issue is of widespread significance so as to warrant the Committee to launch its work on interpretation. Such assistance may also help national standard setters avoid inadvertently presuming that an issue is jurisdiction-specific, where in fact it is widespread in many jurisdictions. In doing so, the AOSSG believes that it is important to honour the protocols for dealing with the IFRS Interpretation Committee. Consistent with those protocols, the AOSSG and other regional bodies also might assist

particular member national standard setters in developing guidance for an issue that does not meet the criteria to be dealt with by the Committee, and help ensure that the guidance remains consistent with IFRSs.

## **B. Governance: Independent and publicly accountable**

- 2.1. The AOSSG believes that independence is of the utmost importance for standard-setters to achieve high quality output, whilst acknowledging the need for maintaining public accountability. Accordingly, the AOSSG strongly agrees with the Trustees' proposition that the IASB's accountability be improved through regular interactions between the Trustees or its Due Process Oversight Committee (DPOC) and the IASB, while maintaining the independence of the IASB.
- 2.2. The AOSSG also believes that the current structure is generally appropriate. Yet, it should be emphasised that due-process oversight is not simply an exercise of ticking a check list, rather what is important is whether sufficient process is followed in substance (including if the re-exposure of the document is warranted.) It is also believed that the role of the Monitoring Board and Trustees should be clearly distinguished by recognising that the role of the Monitoring Board is to provide independent assurance as to whether the Trustees' oversight role is sufficiently discharged, rather than scrutinizing candidates for Trustee and IASB positions or considering the organisation's strategy.
- 2.3. In order to reinforce the Trustees' oversight roles, some AOSSG members suggest that the Trustees may consider whether to assign staff to be dedicated entirely to an oversight function. Such full-time staff, who work directly under the control of the DPOC and not under the control of the IASB members or its senior staff members, may assist the Trustees in fulfilling their responsibilities in a more transparent and justifiable manner.

## **C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world**

- 3.1. The AOSSG considers that the standard-setting process requires continuous improvement; thus, the Group welcomes its further enhancements, including the reinforcement of the Due Process Oversight Committee (see paragraph 2.3).
- 3.2. The AOSSG agrees with paragraph C5 that national standard setters have a greater role to play besides developing domestic standards and that maintaining a network of national and other accounting standard-setting bodies (such as the AOSSG) is an integral part of the global standard-setting process.
- 3.3. As stated in the “Vision Paper<sup>1</sup>”, the AOSSG believes that the Group and its members can play larger roles in various areas including providing input for agenda-setting, field-visits/tests, effect analysis, and post-implementation reviews. In this respect, the AOSSG recommends the Trustees or IFRS Foundation provide greater clarity as to the manner in which such initiatives are carried out. For example, some members believe that post-implementation reviews should start even earlier than proposed (i.e., two years after the implementation of a standard) or that subjects of post-implementation reviews should include some of the older standards which entities are finding difficult to apply consistently (e.g., capitalisation of intangible assets under IAS 38 or calculation of impairment amounts under IAS 36). It is important that a sufficient outreach is undertaken beforehand so as to ensure that the process (including scope and timing) is effective.
- 3.4. Moreover, the AOSSG believes it can be “sounding board”, when the IASB wishes to confer on its tentative decisions to enquire if the approach is sufficiently viable. This process could assist in the effective use of limited staff resources by helping to avoid inadvertently advancing IASB staff work on unviable approaches to issues or jeopardising the IASB’s credibility by subsequently making significant directional changes at an advanced stage. National standard setters are well-placed to help determine the viability of particular approaches with the benefit of domestic stakeholder input. The AOSSG recommends the Trustees take this into consideration in finalising the strategy.

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<sup>1</sup> [http://www.aossg.org/docs/About\\_Us/Vision\\_Paper.pdf](http://www.aossg.org/docs/About_Us/Vision_Paper.pdf)

- 3.5. The AOSSG members could play a more significant role if sufficient assistance is provided by the Foundation's staff of its liaison office. An appropriate working arrangement should be made between the Foundation and AOSSG as soon as practicable. It would be useful if the IASB or other bodies of the IFRS Foundation were to ensure that an appropriate system (possibly more frequent face-to-face or video-conference meetings) will be in place to enable the AOSSG and its members to receive sufficient feedback as to how comments are considered in the agenda-setting or individual standard-setting process.
- 3.6. Further, taking into account the increased complexity of business transactions and the "information gap" that should be bridged by the use of appropriate financial reporting, the AOSSG also intends to undertake thought-leadership activities (such as presentation and disclosure framework or implications of integrated reporting). The AOSSG recommends the Trustees consider how such initiatives can be best leveraged when making decisions about the necessary capacity of the research function at the IFRS Foundation.

**D. Financing: ensuring the organisation is financed in a manner that permits it to operate effectively, efficiently and independently**

- 4.1. The AOSSG believes that, in principle, each jurisdiction applying IFRSs should share the cost of establishing IFRSs in an equitable manner taking into account the capacity, although in fact the Trustees may need to discuss with key stakeholders of each jurisdiction on a bilateral basis.
- 4.2. Even if a formal levy system is not feasible, it may still be possible to adopt a "de-facto" levy system that enables jurisdictions to ensure a more stable funding base. For instance, there is a case in our region that listed companies are requested to contribute a certain amount as aided by stock exchanges. In such a regime, funding would come from a greater number of stakeholders, thereby safeguarding the possibility of dependence on specific dominant stakeholder groups. A wider funding base could cover various industries in the world and may be more resilient in times of economic downturn.

- 4.3. Whilst the AOSSG acknowledges the importance of a stable long-term funding system, we consider that the development of and continuous revision to some form of roadmap would be helpful, so as to accommodate a fast changing environment.

## **E. Others**

### ***Coordination of initiatives between the Trustees and IFRS Monitoring Board***

- 5.1. The AOSSG would like to reiterate that any structural changes initiated by the Trustees should be closely coordinated with those by the IFRS Monitoring Board.
- 5.2. Any inconsistent actions taken by the two bodies would not only undermine the credibility of the reform package, but might mislead stakeholders. Therefore, the AOSSG strongly recommends that sufficient dialogue take place prior to publishing documents.

### ***Membership of the IFRS Foundation Trustees and the IASB***

- 5.3. A summary section of the paper states that failure of the commitment regarding the adoption of IFRSs would lead to reconsideration of some elements of the strategy review document and could lead to modifications in the suggested geographical distribution of the membership of the IFRS Foundation Trustees and the IASB.
- 5.4. Although it may not be the intent of the IFRS Foundation, the AOSSG felt that this description may inadvertently be perceived as suggesting that the Trustees and the IASB members are selected on unwarranted factors rather than on the basis of their expertise. The AOSSG believes the IFRSs should be a set of high quality standards, and that this can only be achieved via screening candidates on the basis of ‘best person for the job.’ The AOSSG felt that the perceived message may lead to some questioning the technical capacity of the IASB, which may hamper the positive steps towards a single set of globally accepted high quality standards. Accordingly, it should be made clearer that appointment to the Trustees and to the Board continue to be based on expertise and potential contribution of the individual.