

Communiqué – November 2017

The Asian-Oceanian Standard-Setters Group (AOSSG) held its ninth annual meeting on the 29th and 30th of November 2017 in Hangzhou, China. The meeting was hosted by the China Accounting Standards Committee (CASC) and attended by 18 member standard-setters as well as representatives of the International Accounting Standards Board (IASB) and the IFRS Foundation.

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

Mr. Eui-Hyung Kim, the outgoing AOSSG Chair, and Mr. Yibin Gao, the incoming AOSSG Chair, welcomed members to the ninth Annual AOSSG Meeting. Mr. Gao thanked Mr. Kim and the staff of the Korea Accounting Standards Board (KASB) for their outstanding work during their tenure as AOSSG Chair and the Secretariat. Mr. Gao expressed his aspiration to fully coordinate the accounting standard setters in the region, deliver their views to IASB and promote the development of one single set of high quality global accounting standards.

At the opening ceremony, Mr. Guangyao Zhu, Vice Minister of Finance of China, Trustee of IFRS Foundation attended the meeting. Mr. Mingji Zhao, Assistant Minister of Finance of China also attended the meeting and provided the keynote address. He encouraged AOSSG members to actively participant in the standard setting process of IFRS. He also hoped that the AOSSG members could work together to identify the specific issues in the region, therefore to better build the international financial reporting standards.

Members then ratified the appointment of Mr. Shiwaji Bhikaji Zaware, Chairman of Accounting Standards Board, The Institute of Chartered Accountants of India, as the AOSSG Vice-Chair for a term of two years.

The IASB was represented at the meeting by the Chair, Hans Hoogervorst, Board members, Dr Chungwoo Suh and Dr Jianqiao Lu. Also, Ms. Michelle Sansom, Associate Director of the IFRS Foundation, and Mr. Mitsuhiro Takemura, the Director of the IFRS Foundation Asia-Oceania Regional Office in Tokyo, attended the meeting.

AOSSG-specific affairs (Members-only session)

Members were updated on the progress of action plans and next steps against the AOSSG Strategic Plan 2015–2019. In particular, members were informed of the following key activities in 2017 and plans for 2018:

- launching new AOSSG Working Groups;

- establishing a new process for AOSSG representation at the Accounting Standards Advisory Forum (ASAF) of the IFRS Foundation;
- meeting with the Trustees of the IFRS Foundation; and
- revitalizing the Centres of Excellence in Developing Countries (COEDC) Mentoring programme.

Members discussed a proposal to amend the *Memorandum of Understanding on AOSSG* with respect to the withdrawal of membership. Members agreed with the proposed amendment on the condition that minor changes of wording be made.

Update and discussion on IASB projects

Mr. Hoogervorst, Dr Suh, Dr Lu and Ms. Sansom provided a strategic update, 2016-2017 activities and implementing the IASB work plan for 2017-2021, including better communication, active projects (e.g. conceptual framework, rate-regulated activities), research programme (e.g. active research projects, research pipeline, post-implementation reviews, wider corporate reporting), upcoming consultations and supporting implementation.

Financial Instruments

The Financial Instruments and Liabilities Working Group leader presented an education session on the IASB's Financial Instruments with Characteristics with Equity (FICE) research project. The presentation contrasted existing equity/liability classification requirements in IAS 32 *Financial Instruments: Presentation*, with the proposed "Gamma" approach under the FICE project. The IASB is expected to release a Discussion Paper on this during Q1 2018. The aim of the Gamma approach is to improve consistency in practice by replacing IAS 32's rules-based and complex requirements with a more intuitive, principles-based approach. AOSSG members deliberated whether the Gamma approach would achieve consistent classification outcomes for similar instruments and if it would be simpler to apply than IAS 32.

Conceptual Framework

The Cross Cutting Working Group presented the background and overall status of the Conceptual Framework project and invited Dr Chungwoo Suh, an IASB member, to introduce the main contents of the revised Conceptual Framework, including the recognition criteria of assets and liabilities, the selection of measurement basis, the principle of classification into profit or loss and other comprehensive income, etc. AOSSG members generally supported the forthcoming Conceptual Framework. Some members queried the concept of control, the definition of assets, and the principle of classification into profit or loss or other comprehensive income. The IASB member provided clarification and answered the questions.

Primary Financial Statements

AOSSG members discussed the IASB's project on Primary Financial Statements. AOSSG members generally agreed with defining the Earnings Before Interest and Tax (EBIT) subtotal, and investing and financing categories on the face of the statement of financial performance using a principles-based approach. Some members were concerned about the alignment of the terms in a statement of financial performance and the statement of cash flows, defining investing activities, usefulness of the EBIT subtotal, and similarity of the 'Primary Financial Statements' project to the IASB/FASB staff draft of an Exposure Draft on 'Financial Statements Presentation' published in July 2010.

BCUCC-The Evolution of Predecessor Accounting

Staff of the Hong Kong Institute of Certified Public Accountants (HKICPA) presented its literature review on the development of the predecessor methods of accounting issued and applied in the United States, the United Kingdom and by the International Accounting Standards Committee (now known as IASB). The objective of the session was to understand the rationale for developing the predecessor method, and whether and how it evolved in concept and in application, so that we can incorporate lessons learnt from the past when considering a way forward for accounting for BCUCC.

Key staff research findings include:

- The predecessor method was intended for mergers of affiliated companies, but was also applied to mergers of unrelated companies;
- The criteria for applying the predecessor method proliferated and became complex to prevent misuse of the predecessor method, however, that led to cases of structured transactions; and
- Little literature was found that explains the rationale for scoping out BCUCC from the definition of 'business combination'.

HKICPA staff also led a discussion on the possible broad approaches for developing the accounting for BCUCC:

1. Keep the status quo, that is BCUCC continues to be scoped out of IFRS 3 and allow practice to form its own judgement;
2. Develop specific accounting for BCUCC;
3. Apply acquisition method to all business combinations (including BCUCC); and
4. Do more research or studies on areas such as mergers and acquisitions and goodwill.

Most members agreed with Approach 2. They supported applying the Conceptual Framework in developing the principles for a specific accounting method (if there is a need for one). Other comments include:

- To be open minded about which method (including a completely new method) should be used to account for BCUCC;
- Consider a holistic review of accounting for business combinations including BCUCC, focusing on the characteristics of three broad types of transactions (mergers of true equals, group restructurings that do not meet the definition of business combinations, and true acquisitions) and develop the rationale for when the predecessor method (or a new method) could be more appropriate compared to the acquisition method.

One member agreed with Approach 3, which is to apply the acquisition method to all business combinations as it would result in more comparable and useful information. In applying this approach, entities should assess how much goodwill is generated from synergies arising from the transaction, versus how much is related to transactions with owners in their capacity as owners.

One member agreed with Approach 4 and recommended conducting more studies on understanding the characteristics of different BCUCC transactions and their related accounting issues; as well as how to account for BCUCC in separate financial statements.

Some members expressed concerns with and challenges of the accounting for goodwill and determining the fair value of a business under the acquisition method. One other member noted that group restructures, performed for the purpose of meeting some jurisdiction's listing requirements, are often accounted for by the predecessor method. In light of this, this member suggested to consider whether and how other ways of accounting for BCUCC would impact such activities.

IFRS for SMEs

The Working Group on IFRS for SMEs presented:

- (a) an Analysis of 'Application of IFRS for SMEs Standard in AOSSG 26 member jurisdictions'; and
- (b) a Survey on 'Application of IFRS for SMEs Standard in the Asia-Oceania Region'.

On the Analysis, nearly half of the 26-member jurisdictions either permit or require the application of IFRS for SMEs Standard in their respective jurisdiction and another 3-member jurisdictions are considering the Standard.

On the Survey, the working group has decided to extend the response due date and the results of the Survey will be finalized early 2018.

The Survey seeks feedback (i) on what is working and what is not working in relation to IFRS for SMEs in the AOSSG region; and (ii) whether the IASB should incorporate changes in the major new IFRSs and specific IFRSs into the IFRS for SMEs Standard and any modifications, required.

Islamic Finance

The Islamic Finance Working Group presented an update on Financial Reporting Issues relating to Islamic Finance. The update is made based on an original research paper which was done in 2010. There were 15 issues which had been identified within topics such as recognition of a financing effect, profit-sharing contracts, Sukuk, Takaful and Ijarah.

The objective of the update is mainly to understand member's current positions on those issues. Additionally, it is aimed to understand the development in IFRS and their potential implications to those issues.

The update suggests that although those issues are unique to Islamic finance, they can be addressed within IFRS. The WG plans to continuously discuss the application of IFRS to Islamic financial transactions and align its work to support the agenda of the IASB Islamic Finance Consultative Group.

Jurisdiction-specific IFRS 15 implementation issues

The ASBJ described its project to develop a comprehensive revenue recognition standard under Japanese GAAP. The new standard will be based on IFRS 15 and, during its deliberations, the ASBJ has identified some implementation issues. At this meeting, the ASBJ introduced two such issues, namely subcontracting transactions and customer loyalty programs. AOSSG members spent more time discussing subcontracting transactions, and the main discussion points included whether control of the parts is transferred to the subcontractor and whether the transaction is a financing arrangement.

Update on plans/issues relating to IFRS application/implementation

AOSSG members from India, Japan, Sri Lanka and Thailand provided updates on the progress of IFRS application in their respective jurisdictions.

China provided implementation issues on fair value measurement and goodwill, and highlighted its training experiences for high level financial accounting talents.

Closing remarks

Mr. Hans Hoogervorst, IASB Chair, noted that the Annual AOSSG Meeting was always enjoyable, especially the energy of this meeting and the diversity of the level of the participating jurisdictions. He emphasised that it is very good for the IASB to hear in detail the specific challenges from AOSSG members directly.

Mr. Kevin Kwok, Chairman of Singapore Accounting Standards Council expressed gratitude for allowing Singapore to host the 2018 Annual AOSSG Meeting.

Mr. Yibin Gao expressed gratitude to all of the attendees and their participation. He noted that the discussion of the technical topics and presentation of the IFRS updates, as well as implementation issues in this year's meeting were substantial and efficient. He said this is the first meeting after China becomes the Chair of AOSSG. He believed that the AOSSG members will work closely together in a leading role of the development of IFRS in the future.

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 plays 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/>.