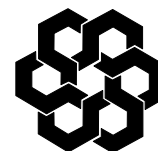


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International  
Accounting Standards  
Committee Foundation

*This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.*

## INFORMATION FOR OBSERVERS

**IASCF Trustees Meeting  
New York, 7 October 2009**

### ADDRESSING IFRS ADOPTION IN EMERGING MARKETS

#### Agenda Paper 1

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#### REPORT FROM THE DIRECTOR OF INTERNATIONAL ACTIVITIES

**To:** IASCF Trustees  
**From:** Wayne Upton  
**Date:** 9 September 2009  
**Subject:** International Director, Activities  
**CC:** Board Members

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1. Tom Seidenstein suggested that I prepare a brief summary for the upcoming meeting of the IASCF Trustees. My last written report was last September, so the timing is apt.
2. I will forgo the detailed travel listing from last year's summary. In the past 12 months, I have met with standard setters and regulators in China, Hong Kong, Korea, Malaysia, Mexico, Japan, and India. The typical consultation lasts a week, and most jurisdictions request that I meet with them more than once. For example, we have settled into a regular practice of two meetings per year in Beijing and Hong Kong. This translates to an average travel schedule of 2 to 3 weeks each month.
3. At a recent SAC meeting, I was asked how we decide the countries with which to consult. The simple answer is the accurate one. I go where I am asked. The time and budgetary demands of the job are sufficient without attempting to generate new business.

4. There is also the question of balancing my efforts and those of Board members who have special geographic interests. In most cases, my efforts have not reduced Board members' liaison involvement. My sense is that individual Board members wish to continue their participation, but not at the level of technical detail typical of my consultations. (The upcoming sequence of Latin American meetings convened by Jan Engstrom and Amaro Gomez is a good example.) This continued Board member involvement is both appropriate and helpful. I could not take over all of the work load, even if I wished to do so.
5. There is the possibility of missed communication and duplication of effort in our division of labour. The process is challenging, but we have had no significant problems to date.
6. The nature of our consultations in a jurisdiction changes as the jurisdiction moves through its adoption or convergence process. Early in the process, the discussions focus on questions that might be described as "project-management." As the process moves forward, the discussions focus more on particular technical issues. That in turn creates a new challenge for the IASB staff, because we need to consult internally and respond. Today, there is a backlog of issues that need to be written up and returned to the individual standard setters.
7. One other development bears mentioning. The Asia-Oceania Standard Setters Group was formed in Beijing in April. It will hold its first meeting in Kuala Lumpur in November. We hope that regional groups like this one will improve the way that regions participate in the IASB process. They may reduce the number of trips that David and other Board members make to the region. I do not expect them to reduce my time and travel. As long as individual countries are adopting or converging with IFRS, they will request individual attention.

## **TECHNICAL ISSUES**

8. The paragraphs that follow describe four topics that will take a significant amount of my time as International Director during the next 12 months.
9. ***Islamic Financial Transactions.*** A large fraction of the world's population are Moslem, and Shariah law describes the types of financial transactions that are considered lawful. Some have suggested that there should be a separate body of Islamic-based reporting

10. In February 2009, the Malaysian Accounting Standards Board issued a Draft Statement of Principles, *Financial Reporting from an Islamic Perspective*. That document includes an extensive analysis of the IASB *Framework* from the perspective of Islamic precepts and law. We have agreed to work with the Malaysian standard setter and others to better understand the questions raised by Shariah-compliant transactions in an IFRS context.
11. **Foreign Currency Translation.** Some countries, notably Korea and India, have seen significant declines in the value of their currencies relative to reserve currencies. The accounting consequences can be severe, because companies in these jurisdictions often have borrowings that are denominated in a reserve currency like the U.S. dollar or the Euro. In India, the law was changed to override the local accounting standard and allow companies to defer foreign currency losses. The accounting issues raised by the Indian and Korean experience are not new, nor are they limited to emerging economies. However, they point to the possibility that IFRS in this area should be reconsidered.
12. IAS 21, *The Effects of Changes in Foreign Exchange Rates*, is modelled on FASB Statement No 52, *Foreign Currency Translation*. FAS 52 was issued in 1981 and is now a very old standard. More importantly, it was written with the perspective of companies that report in a reserve currency. There may be alternatives to the accounting model in FAS 52 and IAS 21.
13. The Board has asked the Korean Accounting Standards Board (KASB) to take the lead in organizing a working group of interested standard setters to research alternatives to IAS 21. The objective would be similar to that of the group on extractive industry accounting – to recommend the scope and approach for a project on the IASB’s post-2011 agenda. Tatsumi Yamada and I have had preliminary discussions with the KASB and will work with them as the group moves forward.
14. **Agriculture.** IAS 41, *Agriculture*, mandates the use of fair value for biological assets. Standard setters in New Zealand and Malaysia have questioned whether that requirement is appropriate for biological assets like rubber trees and grape vines. In their view, these “bearer assets” are similar to fixed assets, as distinguished from crops and livestock. We have asked the two standard setters to develop a proposed amendment of IAS 41 for IASB consideration.

15. *The Equity Method of Accounting.* As noted in last year's report, this issue deals with the separate financial statements of a parent company. IFRSs do not permit the equity method and require preparers to choose either cost or fair value. Most jurisdictions with whom I have met have expressed a preference for the equity method, which they contend provides more useful information and avoids problems with local regulations.