

# WORKING PAPER

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Topic	Clarification of some terms in IFRSs and translation issues		
	Issues for discussion		
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## INTRODUCTION

1. In recent years, the international convergence of accounting standards has achieved significant progress by the IASB with over 100 jurisdictions applying the IFRSs, including many emerging economies.
2. The development of IFRSs is mostly based on developed economies and using English, hence such situation put emerging economies whose official language is not English in a more challenging position to apply the IFRSs: (a) some transactions and items in developed economies do not exist in emerging economies or are at their infant stage; (b) for non-English jurisdictions, IFRSs are not conveniently understood or hardly described in local language.
3. In our view, for emerging economies, especially for those non-English speaking ones, to understand and translate correctly is vital and the results of understanding and translation can directly affect the application and implementation of IFRSs.
4. China has always taken its promise of convergence with the IFRSs, and Accounting Standards for Business Enterprises (ASBEs) have already converged with the IFRSs. Currently, we are developing new standards or revising the current standards in accordance with eight newly published IFRSs by the IASB in 2011, starting with full translation of those eight IFRSs to prepare the draft of the according ASBEs. During the translation, we discovered that some terms (especially newly invented terms) are in need of further clarification on its content and that the translation of some terms leads to ambiguity or those terms are difficult to correctly understand. To illustrate these issues, there are some examples as below.

## ISSUES EXAMPLES

### *Issue 1- IAS1 Presentation of Financial Statements*

5. Paragraph 86 of *IAS1* states that “Because the effects of an entity’s various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance.”

From the context, we would consider the term “gain or loss” actually refers to P/L. We would like to seek further clarification on this.

6. Paragraph 26 of *IAS1* states that “When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis.”

The specific criteria to define “a history of profitable operations” are in need.

### *Issue 2- IAS 19 Employee Benefits*

7. Paragraph 5(c) of *IAS19* states that “other long-term employee benefits, such as the following: (i) .....; (ii) jubilee or other long-service benefits;”

In our view, “jubilee” stands for special anniversary memorial such as 25<sup>th</sup> or 50<sup>th</sup> anniversary, which can be understood in jurisdictions where there is jubilee-related holiday like UK. However, in China, there is not such national holiday and our confusion is what exactly does the benefit “jubilee” refer to?

8. The second paragraph in the illustrative examples para.71 of *IAS 19* states that “Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service.” (Full example in appendix)

In our view, based on the assumption in the example, the pension payment starts at the age of 65, hence the amount of annual pension payment should be calculated from the age of 65 (the date of pension payable), not at the expected retirement date other than 65. We would like to further clarify this issue.

### *Issue 3- IFRS10 Consolidated Financial Statements*

9. Paragraph 4 of *IFRS 10* states that “it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements”;

We have conflicting understandings of the meaning of “not otherwise” in this context. Does it mean “if not specially mentioned, there is vote right” or “vote right only under special

condition”?

#### ***Issue 4-IFRS13 Fair Value Measurement***

10. On **unit of account**, paragraph 14 of *IFRS 13* states that “*The unit of account for the asset or liability shall be determined in accordance with the IFRS that requires or permits the fair value measurement, except as provided in this IFRS.*”

Considering the importance of this concept and lack of clear description and explanations with examples, we would like to see further illustration and explanations with more examples.

11. On **highest and best use**, *IFRS 13* introduces the concept of “highest and best use”, what is the “highest use” and “best use” of a non-financial asset? Is there any difference?

12. On the relation between “**best use**” and “**valuation premises**” in *IFRS 13*, do those terms equal to each other, which means the best use of an asset is the valuation premise of this asset? If not, what is the relation between those two terms?

13. In common sense, **non-performing risk** is no difference from **default risk**, and such view is acknowledged in agenda papers for IASB Board meeting in September 2006. However, in *IFRS13*, non-performing risk is used, we would like to learn is there is more concerns for such choice.

14. On **non-recurring fair value measurement**, if an asset or liability is only measured at fair value at its measurement date but not for its subsequent measurement, how does an entity present the asset or liability on its balance sheet?

15. On **fair value hierarchy**, we would like to clarify the subjects of those levels; does it refer as the three levels of inputs, or of the valuation outcomes? Do the levels of inputs be the levels of fair value measurement outcomes, eg. does the “level 2 of fair value measurement” mean “level 2 inputs”?

16. On **valuation methods**, *IFRS 13* includes market approach, income approach and cost approach, and is there any difference between those approaches stated in *IFRS 13* and those approaches under the same names used in common valuation practice?

#### **OUR SUGGESTIONS**

17. We suggest that the IASB to hear more from non-English speaking emerging economies on upcoming new terms to check if the new term is easy to understand, convenient to translate, clear in its context and ready for implementation. Since those jurisdictions have their unique situations without English native tongue, it’s usually more difficult for them to apply the IFRSs.

18. We suggest that for non-English speaking emerging economies, the IASB should provide more clarifications for those contents hard to understand by examples in IFRSs, application guidance, basic of conclusions or other documents.

## **ISSUES FOR EEG DISCUSSION**

19. Please discuss the following questions:

- (a) Do other economies have same or similar issues stated above?
- (b) What is your suggestion on the clarification of terms used in IFRSs?
- (c) Is there any other suggestions about the translation of IFRSs in non-English speaking jurisdictions?

## APPENDIX

### *IAS19 Illustrating Example*

Examples illustrating paragraph 71	
1	<p>A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.</p> <p><i>A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.</i></p> <p><i>If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.</i></p>
2	<p>A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65.</p> <p><i>Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.</i></p>