

24 February 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 24 member standard-setters from the Asian-Oceanian 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, and Uzbekistan.

The AOSSG sets out to promote the development and adoption of or convergence with IFRS 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 a Working Group of the AOSSG and reviewed by the wider membership. Individual members of AOSSG normally make their own submission as well. It is a policy of AOSSG that submissions reflect any diversity of view within the membership of which we become aware.

In the view of the AOSSG, the first 10 years of the IASB can be marked down as a largely successful era about which the Trustees and IASB should feel very proud. However, we think a strategic review comes at an opportune moment, when the IASB needs to take into account a number of emerging challenges. Therefore, we welcome the Trustees' initiative to undertake the strategic review over the next decade, and to take necessary actions.

We acknowledge that there is a level of fatigue among interested parties in relation to rapid developments being driven by strategic rather than technical objectives (e.g., having the US adopt IFRS). Although the convergence project has been important to the aim of a single set of global standards, many are now seeking a stable environment in which the IASB can exercise judgements in a manner that is attuned to global standard-setting, in which high quality consistent decisions are made. We hope that the Trustees can see ways in which to attain such stability.

Please see the Appendix for our comments answering to respective questions. If you have any questions, please feel free to contact us.

Yours faithfully



Ikuo Nishikawa  
Chairman, AOSSG



Kevin Stevenson  
Vice-chair, AOSSG

**Mission: How should the organisation best define the public interest to which it is committed?**

### **Q1 – defining the public interest**

*The current Constitution states, “These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions.” Should this objective be subject to revision?*

- 1.1 The AOSSG considers that the mission stated in the Constitution is generally appropriate in terms of working in the public interest.
- 1.2 The AOSSG also considers that a focus on users in capital markets making economic decisions is generally appropriate, because the focus of attention should be general purpose financial statements, and not special purpose financial statements that users such as regulators can demand to suit their needs. Regulators may also be users of general purpose financial statements, but those statements should not be unduly influenced by the special needs of regulators, which can be met in other ways.
- 1.3 The AOSSG notes, however, that the IFRS Foundation and IASB view of the ‘world’s capital markets’ seems implicitly to be often focused on larger developed capital markets for large multinational listed securities. Even under the current constitution, however, the term ‘capital markets’ embraces markets for capital for all for profit entities preparing general purpose financial statements.
- 1.4 The AOSSG considers there should be a wider view of ‘world’s capital markets’ that incorporates all capital markets where market participants rely on general purpose financial statements. The AOSSG thinks this would include emerging listed and other private sector capital markets, including many private capital markets where general purpose financial statements are used.
- 1.5 In addition, while we agree that the primary purpose of financial reporting should be the effective functioning of world capital markets, we think that financial reporting also has broader impacts, either directly or indirectly. As far as we have observed, those include regulatory impacts (such as where legislation applicable to corporate entities links the calculation of distributable appropriations to entities’ accounting profits), tax code impacts (such as where the calculation of taxable income is linked to entities’ accounting profits), management reporting impacts (for financial planning purposes),

impacts on debt and other covenants, and so forth. Therefore, in order to promote the global acceptance of the standards, we believe that the mission should explicitly acknowledge these aspects as well.

- 1.6 The AOSSG is of the view that there should be a greater recognition that in setting global standards, the benchmark cannot be easily or too quickly set at the 'gold standard' level. National standard setters need to manage the pace of change so that it matches the capacity for that change, and this needs to also be kept in mind when setting global standards for a world with diverse backgrounds and stages of development. This view is not intended as an argument for weaker or compromised standards. Rather the view is based on the idea that constituents around the globe should be able to embrace the standards established by the IASB. We believe that the IASB needs to better embrace a global outlook and be less focused on achieving convergence with US GAAP.

## **Q2 – financial stability**

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| <i>The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?</i> |
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- 2.1 The AOSSG considers that helping to ensure financial stability is primarily the role of governments supported by their securities and prudential regulators who can demand the information they require.
- 2.2 The AOSSG considers it would be inappropriate to make financial stability and similar public policy concerns an objective of the IASB. This would be tantamount to changing the objectives specified in the conceptual framework for financial reporting and for an aspiration which standard-setting could never hope to realise. While acknowledging the interrelationship, financial reporting should play a part in the economic decision-making of users by providing them with relevant and reliable financial information. It should not be premised on any policies for achieving favoured patterns of behaviour among users. That would inject bias into financial reporting; a bias coming from the judgements of various governments and regulators pursuing diverse objectives of which standard-setters could not claim any mastery.
- 2.3 The AOSSG considers that the most effective way for accounting standards to contribute to financial stability is for them to be of high quality, facilitating high quality

financial reporting. Financial stability could be harmed if financial reporting is deficient and decisions are made on the basis of misleading or inadequate information. The financial crisis highlighted areas of weakness in financial reporting that need to be addressed. However, since high quality financial reporting is already the objective of financial reporting, that objective does not need to be reframed in terms of financial stability. To make financial reporting a tool of achieving financial stability is another matter altogether and one which we would oppose.

- 2.4 The AOSSG would be concerned about the notion of financial stability being an objective for IFRSs because the information needs of regulators should not take precedence over the needs of general purpose users. Furthermore, financial stability is sometimes cited as a basis for avoiding transparency, particularly as it relates to income statement volatility.
- 2.5 If there is a concern that users or preparers might behave illogically as a result of reporting more relevant information, the answers should be sought in better education and better communication when reporting. Trying to avoid transparency for the sake of financial stability cannot be conducive to meaningful reporting.

**Governance: how should the organisation best balance independence with accountability?**

In responding to Q3 and Q4, the AOSSG does not necessarily agree that independence and accountability are competing concepts. Accountability can be achieved without losing independence – as long as the technical decision-making is insulated from political interference (see comments on Q5).

**Q3 – governance of the IFRS Foundation**

*The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?*

- 3.1 The AOSSG generally agrees that the current governance structure which consists of the Monitoring Board, IFRS Foundation Trustees, and the IASB remain appropriate. However, while members have different perspectives as to whether it should be characterised as a “three-tiered structure” or a “two-tiered+ structure”, where the Monitoring Board is viewed as an avenue for providing public comments if the Trustees and the IASB are not effectively functioning.

- 3.2 In essence, we believe that the function of the Monitoring Board should be to provide independent assurance that the Trustees and the IASB are properly discharging their functions. The Monitoring Board should have no executive function and should be comprised of those with sufficient experience of, or exposure to, IFRS to be respected in their views. Accordingly, we would expect that the Monitoring Board would be largely, but not exclusively, comprised of people from countries applying IFRS, taking into consideration the need for diversity of membership from the developed, emerging and smaller economies. The Monitoring Board need not be a large group and should not be allowed to become a replication of the Trustees.

#### **Q4 – formal political endorsement**

*Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?*

- 4.1 As stated in our response to Q3, we support the current governance structure which consists of the Monitoring Board, IFRS Foundation Trustees, and the IASB. Ideally, truly global financial reporting will be achieved with one set of high-quality standards and uniform regulation and enforcement that help ensure the uniform compliance with standards rather than just the development of uniform accounting standards. Taking into account that regulations and enforcements are based on legal decrees in some jurisdictions, such uniformity may necessitate the endorsement of governments.
- 4.2 Uniform regulation would appear to be a longer term goal and we believe that the current focus should be the development of high quality globally accepted accounting standards. The AOSSG, therefore, believes that the formal political endorsement of the Monitoring Board by governments (such as G20) is unnecessary, as it may further complicate the standard setting process. Nevertheless, the Monitoring Board should enhance its accountability to the public at large, through the transparency of its activities including the reasons why they consider the Trustees' actions appropriate for selected aspects.

**Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?**

**Q5 – structure of standard setting process**

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| <i>Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?</i> |
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5.1 The AOSSG considers that the separation achieved between the oversight/funding of standard setting (through the Trustees) and standard setting (through the IASB) is critical and must be maintained because they are fundamentally different roles and the separation is needed to avoid many of the conflicts that might otherwise arise.

5.2 The AOSSG has been disappointed that there have been occasions where apparently adequate processes seem not to have been followed during the decision-making of the IASB due to a number of reasons. The current maelstrom sees the combined effects of the following all happening at the same time:

- (a) the global financial crisis;
- (b) the somewhat unbalanced and urgent efforts for US GAAP/IFRS convergence;
- (c) the transition to IFRS in many jurisdictions; and,
- (d) the maturation of some important long-running projects.

Responses to those influences have seemed to be taking place too quickly to achieve high quality consistent outcomes, or at least they have threatened the chances of achieving such outcomes.

5.3 Looking back to the past, we question whether continuing down the path of scrutinizing due process is only the way forward. This has been going on now for nearly 10 years, and it seems to us that change is being resisted by one or more parties, often due to the concern over the associated costs. Indeed, it seems to us that the credibility of IFRS is being questioned far too often.

5.4 The AOSSG believes that the Trustees and the IASB must work hard first to seek a mechanism to find high-quality answers at earlier stages of the standard-setting process, while ensuring the independence of the standard setting process. In this respect, further development of techniques for the assessment of the impacts of proposed new accounting standards should be considered. In addition, we think achieving these things

is more a question of attitudes and professional judgement than of process. The processes are important, but of themselves they do not ensure good decision-making.

- 5.5 We think that much has been achieved in 10 years but improvement is needed, especially in dealing with the immediate challenges.
- 5.6 In strategic terms, we believe emphasis should be shifted towards the implementation of the standards originally envisaged on the work program, facilitating the efforts of transitioning jurisdictions, rather than undue haste for reform and preoccupation with convergence with US GAAP.
- 5.7 While we do not think it necessary to treat 2011 as such a watershed, improvement of the process is always welcome. Considering that many jurisdictions are making the transition to IFRS, an in-depth review may be warranted at this point in time. If such transitioning is highly successful, everything else to which the Trustees and IASB aspire will follow.

#### **Q6 – application and implementation issues**

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| <i>Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?</i> |
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- 6.1 The number and extent of application and implementation issues seems likely to increase as more jurisdictions apply IFRSs, particularly those with a long history of more rule-based standards. It needs to be acknowledged that GAAP, whether domestic or international, comprises the formal literature and many other supporting, but less formal, precedents and educational processes. Jurisdictions making the transition from their old GAAPs to IFRS face the prospect of jettisoning all those informal supports and having only the formal, written IFRS as their focus. In the early days of IFRS we saw many calls for interpretation when jurisdictions realised this was happening. We have observed that those calls were largely resisted, to protect principles-based standards, and gradually professional judgement and all the informal supports for standards were rebuilt. Jurisdictions with a history in IFRS no longer seek many interpretations and the national standards setters and the IFRS interpretations committee have reasonably effective protocols in place to maintain this position.
- 6.2 Some question if this situation will continue to be true. There are continuing pressures for domestic standards or carve-outs, sometimes to deal with emerging issues for which

the application of IFRSs is not clear. For example, there are the issues emerging from Islamic finance transactions for which there are varying application or even alternative standards that have been gaining recognition.

- 6.3 The pressures may build further as many important IFRSs are revised. Those pressures may be particularly acute for transitioning jurisdictions that have to catch up with the combined formal and informal parts of IFRS known to those experienced with IFRS.
- 6.4 The AOSSG is firmly of the view that the answer to problems of transitioning jurisdictions does not necessarily lie in more formalised interpretations of IFRS. Some view that it is essentially an educational challenge in which strategies are needed to make IFRS training and 'informal IFRS' accessible.
- 6.5 Yet, others question if such informal supports for IFRS are effective in contributing to the efficient operation of the world capital markets, where such educational tools vary significantly between stakeholders. It may effectively result in many sets of international financial reporting standards, rather than the original ambition of a single set of financial reporting standards in the world. .
- 6.6 The AOSSG wonders if there are not ways of making the technical databases and experiences of the larger firms and other large educators into sources for the training of accountants and regulators around the world. As a lateral thought, would those entities be prepared to come to arrangements with not-for-profit IFRS centres of excellence, perhaps regionally located, to facilitate training and knowledge transfer in ways that protects the firms' duties to their clients? Perhaps there are mutually beneficial strategies that could be devised.
- 6.7 There are some issues that, while not unique to a particular region, may be of greater significance to that region than to others, such as issues concerning Islamic finance. In this context, we consider there is a role for organisations such as the AOSSG in researching issues and making recommendations to the IASB, which may be facilitated by having regional offices of the IFRS Foundation such as that recently announced for Tokyo .
- 6.8 The AOSSG also believes the IASB needs to provide longer comment periods for proposals (as already allowed for in respect of major projects in the IASB's *Due Process Handbook*) to help ensure that proposals are thoroughly debated and tested. The due process serves multiple purposes; it is not just to ensure quality in the decision-making processes of the IASB. It is educational too. In this regard, the huge increase in



effort of the IASB to reach out in recent times around the world has served it and its constituents very well.

6.9 The AOSSG believes that domestic standard-setting can, and does, play a vital role in the development of and application of IFRS. In this regard, we would like to see the Trustees and IASB positively promoting domestic standard-setting, especially in developing countries. The AOSSG is, itself, committed to that promotion, but we are but one region in the world and not the sole possible source of assistance even in our own region.

6.10 Also refer to comments on Q8.

**Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?**

**Q7 – automaticity of financing**

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| <i>Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?</i> |
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7.1 The Trustees are well aware of the need for a better funding model for the IASB, and the AOSSG supports their attempts to find one. The AOSSG thinks that this issue needs to be addressed in the light of its comments on Q1. The funding model should be reflective of the parties for whom standards are being set. If the Trustees and IASB are too narrowly focussed in terms of sectors and groups of users, the likelihood is that the funding model will be too narrowly conceived.

7.2 In our view, each jurisdiction applying IFRS should be funding a share of the costs of establishing IFRS. The basis for that sharing should be a proxy for capacity to pay, such as relative GDP. It may well be that an additional social overlay might be needed to assist developing countries to make the transition. This might be needed, for example, where the domestic accounting profession or government is particularly poorly placed to bear its share of costs on a relative GDP basis.

7.3 The AOSSG believes that the Trustees should be actively seeking proportionate funding from the 120 or so jurisdictions applying or committing to apply IFRS. If that could be

achieved it would probably mean the budget would not be a significant issue and that the burden would be equitably spread.

## **Q8 Other issues**

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| <i>Are there any other issues that the Trustees should consider?</i> |
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### **Consultation periods**

- 8.1 The AOSSG has found it difficult to provide comments to the IASB on its Exposure Drafts and other consultative documents within the set comment periods. This is partly because we actively involve the standard-setters in 24 jurisdictions, using smaller working groups of say 8 to 10. Those jurisdictions are widely-spread geographically, limiting the ability to discuss and resolve issues in face-to-face meetings. Also, we approach the IASB's proposals from a number of different perspectives, including the Islamic Finance perspective, and it takes time to properly assess the likely impacts of the IASB's proposals.
- 8.2 The AOSSG believes that the IASB needs to be particularly mindful of the issues faced by jurisdictions with constituents who typically work in languages other than English. The languages in our region are quite diverse. This issue is extenuated by the varying stages of development and relative progress along the path to IFRSs.
- 8.3 The AOSSG recommends that the IASB's work program allow for longer comment periods to enable sufficient time for constituents in AOSSG jurisdictions to understand the implications of the proposals and for the AOSSG to properly debate the proposals so that its comments to the IASB can be as comprehensive and helpful as possible.

### **Q8 – other issues – regional bodies**

- 8.4 The AOSSG considers the AOSSG model (of a regional grouping of standard setters) is proving quickly to be a useful one that the Trustees may wish to encourage in other parts of the world. This is on the basis that the foci of the AOSSG are (a) contributing directly to the IASB's due process and technical efforts in establishing a single set of global accounting standards; and (b) helping domestic standard-setting in member jurisdictions and its capacity to assist the IASB.

- 8.5 It seems inevitable to us that the IASB will need to work primarily through regional arrangements out of sheer practicality. It is also important to remember that many domestic standard-setters have due process requirements before new IFRS standards can be adopted.
- 8.6 Some members expressed concern that the out-reach sessions that the IASB run are welcome but can cause difficulties in planning domestic due process. For example, an outreach by IASB Board and staff members may well make it impractical to run domestic roundtables even though the IASB outreach may not have taken the form of a roundtable. It may be better for those outreach sessions to be regionally focussed, leaving the domestic standard-setters to do their job within individual jurisdictions.
- 8.7 Combining these observations, it would seem sensible to AOSSG that the Trustees and IASB should contemplate sets of protocols more directly attuned to any existing regional standard-setting groups. Those protocols could cover the means by which coordination can be achieved in due process and outreach, promotion of domestic standard-setting, handling of requests for interpretation, post implementation and other research, and even in identification of talent within the region relevant to needs of the Trustees and Board (e.g., for expert panels, topical assistance and even membership). AOSSG would not, in any way, wish to fetter the operations of the Trustees or Board, but rather would wish to assist in the most effective and efficient manner possible.

#### **Q8 – other issues – translation**

- 8.8 Many of the AOSSG's constituencies use languages other than English. A lack of resources applied to translating IFRSs is a barrier to their adoption in some jurisdictions. This problem is particularly acute in the present environment in which there are many and frequent changes to IFRSs.
- 8.9 The AOSSG considers that the Trustees should consider ways in which resources could be made available to enable the prompt translation of IFRSs into a wide range of languages.