ASC
ACCOUNTING STANDARDS COUNCIL

30 November 2011

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sirs

RESPONSE TO REQUEST FOR VIEWS: AGENDA CONSULTATION 2011

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Request for Views on Agenda Consultation 2011 issued by the International Accounting Standards Board (the Board) in July 2011.

General

We applaud the Board's efforts to provide a channel for formal public input on the broad aspects of its agenda-setting process. We believe this would assist the Board in the creation of a work plan that seeks to balance and reflect the diverse financial reporting needs of its global stakeholder base and enhance the transparency of its standard-setting process. Such consultations should be conducted regularly going forward in view of the increasing number of jurisdictions that had converged with/adopted or have plans to converge with/adopt the International Financial Reporting Standards (IFRSs).

In setting the agenda for the coming years, we believe the Board should give due consideration to the following:

Limit the number of projects to be included in the Board's future agenda

The Board's work plan in the last couple of years had been overloaded and stakeholders had often expressed concern that this could impede the development of high quality IFRSs due to the lack of sufficient time for stakeholders to provide well thought through feedback to the Board and for the Board to thoroughly deliberate the feedback. The Board's recent decisions to re-expose a number of projects such as Leases and Revenue from Contracts with Customers had also led some stakeholders to ponder the efficiency of the Board's standard-setting process. To this end, we believe it is imperative that the Board limits the number of projects to be included in its future agenda so as to ensure the establishment of a work plan that is reasonable and manageable to both the Board and its stakeholders.

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Need for a period of calm and a stable platform of IFRSs

In the last two years, the Board had issued a number of new IFRSs that introduced fundamental changes to the existing IFRSs in areas such as Consolidation, Fair Value Measurement and Financial Instruments: Classification and Measurement. The Board is expected to issue new IFRSs in the next one to two years in the areas of Hedge Accounting, Financial Instruments: Impairment, Insurance Contracts, Leases and Revenue from Contracts with Customers that will similarly introduce fundamental changes to existing IFRSs.

It is therefore paramount that the Board strives for a period of calm and maintains a stable platform of IFRSs for the next couple of years in order to provide the space and certainty needed for stakeholders to properly understand and implement these various new IFRSs appropriately and consistently. A period of calm would also allow the Board to focus its resources on assisting and supporting the various jurisdictions in their implementation of the new IFRSs, which we consider should be one of the key strategic priorities of the Board post 2011. Having a stable platform of IFRSs would also provide an incentive to jurisdictions to either proceed to implement or bring forward their plans to converge their accounting standards with IFRSs or to adopt IFRSs in their marketplace.

Accordingly, we believe that the Board should not undertake any substantial projects to introduce further pervasive changes to IFRSs in the next three years unless there is broad agreement amongst stakeholders that such changes are essential. In this regard, we concur with the observation made in the letter of the IASB Chairman in the Request for Views that "many may want a stable platform before further substantial projects are undertaken".

Integration of National Standard Setters (NSS)' activities with the Board's activities

We encourage the Board to examine how it can integrate the NSS' activities with its activities particularly in the areas of IFRSs implementations, IFRSs post-implementation reviews and research. We believe the overall strategic objective of the Board and the NSS is aligned and this is the development of a set of high quality global financial reporting standards that reflects the economic and legal substance of the transactions in each jurisdiction. The NSS therefore represents a body of resources that the Board should consider leveraging upon and an established process that is structured to integrate the NSS into the Board's proposed activities in these areas in a coordinated manner would be mutually beneficial.

In addition, the Board would be able to alleviate potential resource constraints that inhibit the implementation of these much needed activities. Furthermore, we believe that there is synergy in this collaboration in that the Board and its staff could provide the IFRS perspective surrounding the application of the IFRS and the NSS and their staff could provide the jurisdictional perspective of the application of the IFRS principles.

Our comments on the specific questions in the Request for Views are as follows:

Question 1
What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

Question 1(a)
Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

Question 1(b)
How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

We generally agree with the two categories identified and the five strategic areas within them. Our views with regard to the questions are reflected within the broad topics in the following paragraphs.

Post-implementation reviews

We are supportive of the Board's intention to focus on post-implementation reviews. However, we are of the view that the scope of the post-implementation reviews as outlined in the Request for Views which is to "focus on important issues identified as contentious during the development of a new IFRS or a major amendment and include consideration of any unexpected costs or implementation problems that have been encountered" is too narrow. We believe that the objective of the post-implementation reviews should be whether the IFRS results in decision-useful financial information that is relevant and faithfully represents the economic and legal substance of transactions across different marketplaces. Furthermore, the post-implementation reviews should be extended to all existing IFRSs rather than be restricted to new IFRSs or major amendments.

However, we are cognizant of the additional resource that may be needed by the Board in order to increase the scope of the post-implementation reviews. In this regard, we believe that the Board should consider leveraging upon the resources of the NSS.

Responding to implementation needs

We welcome the Board's initiative to focus on responding to implementation needs. However, we are of the view that the Board should do more in this area beyond developing interpretations and proposing amendments through annual improvements or narrow-scope improvements to IFRSs.

Specifically, the initiatives outlined by the Board in this area appear reactive measures in responding to implementation needs. Taking into account the number of new and revised IFRSs that the Board had issued in the past two years and is expected to issue in 2012-2013 which would have a fundamental effect on accounting for various transactions, we believe the Board should consider proactive measures to address potential implementation issues across jurisdictions.

In order to ensure that there is a high quality of application of new and revised IFRSs and pre-empt potential application challenges of new and revised IFRSs in various jurisdictions, the Board could leverage upon the NSS by developing an endorsement process for accompanying notes issued by the NSS to provide guidance for application in the local marketplace taking into consideration the local legal, economic and business environment. The accompanying notes issued by the NSS should not contravene the principles articulated in the IFRSs but rather provide guidance to constituents in various jurisdictions on the appropriate accounting for specific transactions in the specific jurisdictional context for which the principles in IFRS lack clarity.

We are of the view that a formal process that is established in this area between the NSS and the Board would be extremely useful in responding to implementation challenges that stakeholders face in applying the principles in the new and revised IFRSs in their jurisdictions. We do not see this proposal as contradictory to the existing role already performed by the IFRS Interpretations Committee but rather as a supplementary role which is beneficial for transactions which are jurisdictional specific for which the IFRS Interpretations Committee may not consider putting onto its agenda.

This should be the strategic objective that the Board should strive to achieve. As such, we are of the view that the IASB should further engage the NSS to formalise this process to deal with jurisdictional specific legal and economic situations encountered by the NSS. Currently, as such a formal process for the issuance of accompanying notes by the NSS is absent; this space appears to be taken up by the global accounting firms which may determine the same accounting treatment across different marketplaces for economically dissimilar transactions. One such example is the experience encountered by a number of Asia-Oceania standard setters in the implementation of IFRIC 15 in their respective marketplaces, where the global accounting firms do not appear to take into account the economic and legal substance of the real estate sales in such marketplaces in applying the principles articulated in IFRIC 15.

In addition, we recommend that the Board consider conducting Train the Trainers workshops for the new and revised IFRSs. This approach would be similar to the Train the Trainers workshops for the IFRS for SMEs that the Board had conducted in various jurisdictions to assist jurisdictions in implementing the IFRS for SMEs.

Prioritisation of the Board's agenda

On the issue of balancing the Board's strategic priorities, we believe that the Board should prioritise its agenda in the next three years in the following order:

1. Complete the existing priority projects, which are Financial Instruments (Phase 2: Impairment and Phase 3: Hedge Accounting), Insurance Contracts, Leases and Revenue from Contracts with Customers.

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2. Review IFRS 1 *First-time adoption of IFRSs*

We understand and appreciate that the objective of IFRS 1 is to guide jurisdictions transiting from national accounting standards to IFRSs so that an entity's first IFRS financial statements provides a suitable starting point for accounting in accordance with IFRSs. However, we are concerned that IFRS 1 is written in a manner which could have unintended consequences for jurisdictions whose national accounting standards are substantially the same as IFRSs such as the Singapore Financial Reporting Standards and IFRS 1 is therefore at risk of becoming a key impediment to the convergence efforts of some jurisdictions.

Specifically, the application of IFRS 1 could result in changes to an entity's previous financial statements prepared in accordance with the national accounting standards even though the national accounting standards are essentially word-for-word equivalents of IFRSs. We are of the view that this will impair the comparability of an entity's financial statements across periods, in addition to creating confusion to the marketplace and users of financial statements.

Accordingly, we urge the Board to carry out an urgent review of IFRS 1 in order to address the transitional impediments imposed on:

(a) jurisdictions whose national accounting standards are substantially the same as IFRSs from converging to IFRSs; and

(b) jurisdictions whose national accounting standards are exactly the same as IFRSs from moving to a convergence model where the financial statements of entities will assert compliance with both the national accounting standards and IFRSs as issued by the Board.

3. Revive the Conceptual Framework project as a sound Conceptual Framework is vital to the development of high quality standards that are principles-based and internally consistent and can assist the Board in the identification and prioritisation of standards-level projects to be included in the Board's future agenda. In this regard, we believe the Board should give priority to the following topics within the Conceptual Framework project:

a. <u>Performance measurement and reporting</u>

There is currently a lack of clarity on the roles of "profit or loss" and "other comprehensive income" (OCI) in measuring and reporting an entity's performance. The interaction between profit or loss and OCI is also unclear especially the notion of recycling and when or which OCI items can or cannot be recycled to profit or loss. Greater clarity on a conceptual level is therefore necessary, particularly given that stakeholders are increasingly concerned that the OCI classification is at risk of becoming a convenient place for the Board to "warehouse" contentious items.

b. The notion of control

Control is a concept that is increasingly used in IFRSs such as in revenue recognition in the revised Exposure Draft (ED) on Revenue from Contracts with Customers, in addition to its current use in consolidation and the asset definition. As such, a project to articulate and determine the notion of control and its relevance in IFRSs is important due to the cross-cutting impact on its application across IFRSs.

c. The disclosure framework

The disclosure requirements in IFRSs have long been criticised for being too voluminous and do not always focus on what is useful to users. We believe that a project to develop an appropriate disclosure framework would be timely.

4. Assist jurisdictions in the implementation of the new IFRSs in collaboration with NSS.

5. Conduct post-implementation reviews of IFRSs in collaboration with NSS.

6. Initiate research on the future shape of financial reporting and the corresponding standard-setting needs. In this context, the Board should establish a framework to leverage on research conducted by NSS, academics, etc.

We note that the Board is considering conducting a strategic review on the topic of integrated reporting. Although integrated reporting may possibly play a role in the future, we do not believe the Board should include this item in its agenda at this juncture in view of the fluidity of this topic currently.

On the topic of XBRL, we note that the Board is considering the completeness and consistency of integration of XBRL with IFRSs. We are of the view that the development of the IFRS taxonomy for the purpose of facilitating the electronic reporting of IFRSs financial information through XBRL should not be part of the Board's standard-setting process.

Question 2:
What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Question 2(a):
Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

Question 2(b)
Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

In respect of the projects previously added to the Board's agenda but deferred and new projects that the Board had outlined in the Request for Views, other than the topics on "*OCI*" and "*Disclosure*" which we have included under the Conceptual Framework project in Question 1, we are of the view that there is no urgent piece that requires pressing action from the Board although we recognise the merits for some of these projects. We have also not identified any other issues or standards not outlined in the Request for Views which require urgent "fixing" by the Board apart from the review of IFRS 1 as stated in our response to Question 1.

In line with our earlier comment on the need to respect a period of calm and to maintain a stable platform of IFRSs for stakeholders globally, we urge the Board to limit the number of projects, including those that are requested by the different stakeholders, to be included in the Board's post 2011 agenda. In this regard, we propose that the Board consider the following when deciding which projects should be added:

1. There is evidence that a gap in the IFRS literature is becoming critical;

2. Post-implementation reviews, research activities, or other evidences reveal significant deficiencies in the existing IFRSs; or

3. Changes in business dynamics render the existing IFRS substantially irrelevant.

However, if resources permit, we believe that there is merit for the Board to consider a project on the "role of business model" in IFRSs, either as part of the overall Conceptual Framework project or a separate project on its own.

We observe that business model is a concept increasingly used in IFRSs but in an arbitrary manner. For instance, business model is used in IFRS 9 as a key determinant to determine the classification and measurement of financial assets and in the ED on Investment Entities to identify an entity for which an exception to the principle of consolidation would apply. However, we note that the business model concept was not used by the Board in the revised ED on Revenue from Contracts with Customers for purpose of identifying separate performance obligations[1].

As such, we are of the view that the Board should develop a conceptual basis to determine when the application of the business model concept is or is not appropriate so that the concept can be consistently applied across IFRSs. This is similar to our request for the Board to examine the role of the control notion as part of the Conceptual Framework project due to its pervasiveness of use across IFRSs.

[1] In our comment letter to the Board's first ED on Revenue from Contracts with Customers, we had commented that the Board should consider using an entity's business model in applying the proposed principle for identifying separate performance obligations so that relevant/decision-useful financial information that faithfully depicts the essence of the entity's business can be presented. We note that the revised ED continues to disregard an entity's business model.

Finally, we are of the view that the Board should nonetheless reserve some capacity and flexibility to deal with any unforeseen urgent issues without disrupting its work plan.

We hope that our comments will contribute to the Board's deliberation on the agenda consultation. Should you require any further clarification, please contact the project manager Ivan Koo at ivan_koo@mof.gov.sg.

Yours faithfully

Siew Luie SOH (Ms)
Secretary
Singapore Accounting Standards Council