

Promoting ICAI in Global Standard Setting Process— A Report on International Forum of Accounting Standard Setters (IFASS) Meeting in New Delhi, 6th-7th March, 2014



ICAI President CA. K. Raghu and Vice-President CA. Manoj Fadnis along with IFASS Chairperson Ms. Tricia O'Malley, and IFASS official Mr. Harry Klompass

IFASS is an informal group of organisations that are committed to working, in the public interest, for improvement of financial reporting. IFASS supports the mission of the International Accounting Standards Board ('IASB') to develop a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information. It provides a platform at which regulators, policy makers, standard setters from different nations exchange their views and share experience about other issues in financial reporting. Tricia O'Malley is the Chairperson of the Group. She is former Chair of the Canadian Accounting Standards Board and former member of the International Accounting Standards Board (IASB).

The IFASS meeting was attended by representatives of standard-setters from 39 countries and the representatives of the International Accounting Standards Board (IASB), European Financial Reporting Advisory Group (EFRAG), Asian-Oceanian Standards-Setters Group (AOSSG), International Public Sector Accounting Standards Board (IPSASB) and the Pan African Federation of Accountants (PAFA). Apart from these representatives, a number of observers also attended the meeting.

Tricia O'Malley, IFASS Chairman and **CA. K Raghu**, President ICAI, welcomed the participants at the meeting. Peter Martin, Technical Director, Canadian Institute of Chartered Accountants, made a brief presentation about IASB Work plan and IFRS Foundation developments. Various projects in progress by IASB such as Financial Instruments, Revenue, Leases, Conceptual Framework, *etc.*, with regard to major issues, developments and timelines of their completion were discussed. At the meeting, discussion on interpretation and implementation guidance took place particularly with regard to the criteria used by IFRS Interpretation Committee to place issues on its agenda and the feedback it gets from stakeholders in this regard.

Another topic discussed was the role of the business model in financial reporting. A Research Paper is being prepared by EFRAG and the French and UK Standard-Setters, which aims to explore the implications of the business model for financial statements. It was discussed as to whether the current *ad-hoc* use of the business model approach in IFRS should be incorporated in the Conceptual Framework as guidance for standard setting. Various attributes of business model were discussed for this purpose.



ICAI President CA. K. Raghu presents bouquet to ICAC (Instituto de Contabilidad y Auditoria de Cuentas) Chairperson Ms. Ana Martinez-Pina, while ICAI Vice-President CA. Manoj Fadnis, among others, share the moment.

An update on the goodwill impairment and amortisation project was provided by EFRAG, Japan, India and Italy. In the session, accounting requirements for treatment of goodwill were discussed, particularly, pertaining to whether goodwill meets the definition of an asset and, if yes, whether goodwill should be amortised with impairment or only tested for impairment as presently required in IFRS.

Another topic on which discussion took place was on role and purpose of Conceptual Framework, as to whether the Framework should assist others to understand and interpret IFRS and develop accounting policies where no IFRS or interpretation applies. In this context, it was noted that the IASB Discussion Paper states that the primary purpose of the Conceptual Framework is to assist IASB in formulation of IFRS. A view was expressed that it should not only be a tool kit for IASB but should be a conceptual framework for General Purpose Financial Reporting.

In view of the issues involved in the identification of items in Other Comprehensive Income and in Profit or Loss, a paper was presented giving an alternative approach of classifying items as operating and non-operating. In this context, this paper proposed the measurement basis related to these operating and non-operating items.

On the second day of the meeting, the updates on major agenda projects, viz., lease, financial instruments and disclosure initiative were given. In these sessions, the IASB staff explained the recent developments in these projects.

In the session on topical issues, presentations were made by the representatives of various countries. The representative from Germany discussed the issue raised with reference to the changes proposed in the IAS 19, *Employees Benefits* with regard to bonds which will be considered as high quality corporate bonds in the light of the recent European Crisis. The issue discussed was, should the depth of the market of High Quality Corporate Bonds be assessed at a country level or at a currency zone level.

From Italy, various issues involved in the application of IFRS 11, *Joint Arrangements*, such as the possibility of structuring a transaction so as to be classified as joint operation, accounting for interest in joint operations through a separate vehicle in SFS, etc., were discussed.

The representative of the host country, India, made a presentation on the issue of separation of derivatives embedded in a non-financial contract, in view of lack of clarity in the relevant requirements of the IFRS 9, *Financial Instruments*.

In another session, concerns with regard to complexity in the financial statements due to avoidable and unavoidable reasons were discussed. It was further discussed that whether there should be an explicit discussion on the different aspects of complexity in the Conceptual Framework. Since this aspect was already covered under 'understandability' in the Conceptual Framework, the majority view was that the individual IFRS need to address the issue of 'complexity'.

An update of International Public Sector Accounting Standards Board (IPSASB) activities was provided by its representative. Reports from Regional Groups were also made at the meeting.



ICAI President CA. K. Raghu presents bouquet to ICASL (Institute of Chartered Accountants of Sierra Leone) Vice-President Mr. Kebbe Ahmed Kouroma; ICAI Vice-President CA. Manoj Fadnis and Central Council member CA. Babu Abraham Kallivayalil, among others, can also be seen

The AOSSG Chairman, Clement Chan, provided an update on the group's activities. Françoise Flores, Chairperson of EFRAG, provided an overview of EFRAG's update on activities during last 5 months, such as field work in Europe, seeking comments on various IASB consultation papers, issuance of research paper *etc.*, were shared at the meeting. Reports of the Group of Latin American Accounting Standard Setters (GLASS) activities and the activities of Pan African Federation of Accountants (PAFA) were also presented.



ICAI President CA. K Raghu addresses the participants while IASB Chairman Mr. Hans Hoogervorst, AOSSG Chairman (and HKICPA President) Mr. Clement Chan and ICAI Vice-President CA. Manoj Fadnis share the dais

IFRS Regional Policy Forum

The 8th IFRS Regional Policy Forum (Forum) was held in New Delhi on 8th – 9th March, 2014, on the theme “Financial Reporting: New Frontiers”. As many as 120 delegates from 21 jurisdictions, in addition to those from India, participated in the Forum, which included senior representatives from international, regional and national accounting standard-setting bodies, oversight bodies, audit regulators financial and other regulators, government, corporate, practitioners, and academia.

The proceedings of the Forum commenced with the inauguration session wherein CA. K. Raghu, President, ICAI, welcomed the dignitaries and the participants to the Forum and shared with them the road map in relation to implementation of Indian Accounting Standards (Ind ASs) converged with the International Financial Reporting Standards (IFRSs) by India.

Hans Hoogervorst, Chairman, IASB, gave a speech on the topic 'Closing the Accounting Chapter of the Financial Crisis' wherein he explained the IASB's feedback to the financial crisis. He also mentioned that convergence was

an unstable means to achieve a single set of global accounting standards.

Clement Chan, Chairman, Asia-Oceanic Standard Setters Group (AOSSG), highlighted the efforts made by different jurisdictions to enlarge the cooperation in regional standard-setting. The inauguration session concluded with **CA. Manoj Fadnis**, Vice-President, ICAI, thanking for providing the ICAI the opportunity to host the Forum in New Delhi, a first ever in India.

The technical deliberations at the Forum comprised of 4 sessions and 3 panel discussions.

CA. Sanjeev K. Maheshwari, Chairman, ASB-ICAI, chaired the first technical session on Developments in IFRS and Alan Teixeira, Senior Director, Technical Activities, IASB, made a brief presentation on the standard setting process and the different stages of standard developments.

CA. Y. H. Malegam, Past President, ICAI, moderated the panel discussion on *Do IFRS ignore 'Prudence'?* Hans Hoogervorst, Chairman, IASB, shared his views as to why IASB felt the need to remove the concept of prudence from the Conceptual Framework. The panelists shared their views on whether prudence should be reinstated in the Conceptual Framework. At the session, the representatives from India and other countries expressed concerns on the removal of the concept of prudence.

Another session was on *'New approach to Lease Accounting'*. During the session, new approach to the lease accounting proposed in the IASB ED was discussed. The session was moderated by the **CA. S. Santhanakrishnan**, Vice-Chairman, ASB-ICAI, and the panelist was **Ms. Sue Lightfoot**, Director, International Activities, Australian Accounting Standards Board (AASB). At the session, Ms. Sue shared the views of **Kevin Stevenson**, Chairman & CEO, AASB, on the approach discussed in the IASB Exposure Draft on Leases.

Another session was on *'Fair Valuation under IFRS – Concerns and Safeguards'*. During the session, deliberations as to how, among others, fair value measurement approach, including its implementation, is one of the major challenges in emerging economies and how it could be addressed to arrive at the fair value measurements that are reliable. The session was moderated by Tricia O'Malley, Chairperson,

IFASS (International Federation of Accounting Standard Setters), and the panelists were **CA. P. R. Ramesh**, FCA, India; Kumar Dasgupta, Technical Director, IASB; and **Dr. Huaxin Xu**, Project Manager, Ministry of Finance, P.R. China. During the session, conceptual limitations, implementation difficulties, challenges such as interpreting and applying the definition of fair value, volatility in fair valuation and the areas of possible improvements in fair valuation were discussed.

In the session on *Challenges of Evolving Nations in Convergence/Adoption of IFRS*, issues of various jurisdictions were discussed. The session was chaired by Clement Chan, Chairman, AOSSG. Chairman, ASB-ICAI, made a presentation on challenges in adopting IFRS in India. He discussed various concerns of the regulators and the reasons of carve-outs in the IFRSs. He also mentioned that in India, in the IFRSs converged Standards, local guidance has been included in certain cases, where, it is felt necessary. **Djohan Pinnarwan**, Board Member, Indonesia, shared Indonesian experiences. He also highlighted the implementation/interpretation issues such as accounting for land rights in Indonesia and accounting for telecommunication towers. **Sungsoo Kwon**, Vice-Chair, KASB (Korean Accounting Standards Board) made a presentation on Korean experience with IFRS Adoption which highlighted the current status of implementation of IFRS and challenges and responses thereto and effects of IFRS adoption.

'Goodwill: Impairment only or with Amortisation', was another topic for panel discussion. **CA. Amarjit Chopra**, Past President, ICAI, moderated the panel discussion. **Filippo Poli**, Deputy Research Director, EFRAG provided the highlights of the research project on the subject being carried out by EFRAG. **Tomokazu Sekiguchi**, Board Member, ASBJ made a presentation on alternative approaches which were considered for goodwill accounting and reasons for considering the impairment and amortisation approach as the most appropriate. **Deahyun Kim**, Senior Technical Manager, KASB, also favoured this approach and shared the views of Korean stakeholders.

CA. N. P. Sarda, Past President, ICAI, chaired the last session on *Post-issuance Review of New IFRS*, and the speakers were Alan Teixeira, Senior Director, IASB; **P.R. Ravi Mohan**, Chief General

Manager, Department of Banking Supervision, Reserve Bank of India; and Kumar Dasgupta, Technical Director, IASB, led the deliberations. CA. N. P. Sarda provided a background and briefed about the proposed IFRS on Expected Credit Losses. At the session, the concerns of banks on the proposed topic were discussed by Ravi Mohan. Kumar Das Gupta explained the various measures taken by the IASB to resolve the concerns of the various stakeholders with regard to the proposed "Expected Credit Loss" model under IFRS 9: *Financial Instruments*. **Alan Teixeira** explained the IASB and FASB new proposal to set up a joint implementation group post-issuance of the new IFRS on *Revenue*, which will primarily identify issues which may require interpretation. He mentioned that at present IASB did not have any proposal to set up a similar group for 'expected credit losses', post-issuance of that IFRS.

The deliberations concluded with Chairman of the ASB of the ICAI and Clement Chan wrapping up the discussions and highlighted the points emerging therefrom.



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AOSSG Interim Meeting

An interim meeting of the AOSSG members was held on 7th March, 2014 in New Delhi which was attended by the delegates from 13 jurisdictions including India. The main agenda for the meeting was to finalise the future strategy to strengthen AOSSG and its members. Clement Chan, Chairman, AOSSG, discussed various aspects of the strategy paper placed at the meeting. However, in view of the paucity of time, the same was deferred for the next meeting. The meeting concluded with giving thanks to all members of AOSSG for their participation. ■