

August 12, 2015

**Mr. Hans Hoogervorst**

Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
UNITED KINGDOM

Dear Chairman Hoogervorst:

As the private sector dialogue partner of the Asia-Pacific Economic Cooperation (APEC) Forum, the APEC Business Advisory Council (ABAC) is charged with providing private sector perspectives to policy makers and stakeholders from the Asia-Pacific region, and to facilitate APEC initiatives. In forming its views on financial issues, ABAC draws on insights from a broad range of industry, public sector, multilateral and academic experts, particularly through the platform of the Asia-Pacific Financial Forum (APFF), which ABAC initiated in 2012 and APEC Finance Ministers adopted in 2013 as one of their official policy initiatives managed by ABAC.

Among the key priorities that APFF has identified in its most recent report to APEC finance ministers<sup>1</sup> is the development of the Asia-Pacific region's insurance and pension fund industries, in view of the substantial need to expand the long-term investor base for the growth of infrastructure investment and capital markets and for meeting the needs of aging societies.<sup>2</sup> Accounting plays a critical role in this process; thus we have adopted APFF's recommendation to undertake dialogues on regulation and accounting issues and how these impact the long-term business of insurers and longevity solutions.

In this context, we welcome the opportunity to provide comments on the IASB consultation document dated May 2015 on the Conceptual Framework for Financial Reporting. In submitting these comments, we do not intend to respond to all the questions, but rather to provide high-level recommendations from our vantage point as representatives of the region's business community. In particular, we wish to highlight specific questions that may affect the ability of insurers and pension funds to play the role that our policy makers are hoping they can play in the development of our region, in particular:

- to effectively provide long-term funding;
- to support financial stability, economic and infrastructure development and;

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<sup>1</sup> The 2014 APFF Interim Report to the APEC Finance Ministers synthesized the results of discussions undertaken by more than 270 senior representatives and experts from 137 major private and public institutions and proposed 12 action plans, which are clustered around two major issues: promoting capital market depth and liquidity and long-term investments, and expanding financial access of enterprises and individuals to financial services. The report was officially endorsed by APEC Finance Ministers at their annual meeting on October 22 in Beijing. It can be obtained through the following links:

Executive Summary <https://www.abaconline.org/v4/download.php?ContentID=22611923>

Full report <https://www.abaconline.org/v4/download.php?ContentID=22611921>

(See E. Insurance and Retirement Income on page 56-62).

<sup>2</sup> As a part of the above-mentioned project, ABAC developed a list of high level accounting, regulatory, market and operational issues and recommendations on promoting long-term investments in the Asia-Pacific, as a basis for discussions with policymakers and regulators. See Annex H: Constrains on Promoting Long-Term Investment in the Asia-Pacific <https://www.abaconline.org/v4/download.php?ContentID=22611898>.

- to serve the needs of our aging societies.

In ABAC's previous reports to APEC Economic Leaders, we have consistently expressed our support for adoption of IFRS throughout the APEC region, as part of APEC's goal of encouraging regulatory coherence, enhancing the development of regional capital markets and promoting sustainable economic growth. At the same time, ABAC noted that the implementation of IFRS should be undertaken in a manner that minimizes adverse consequences for real economic activities and that reflects each economy's business practices.

While we generally support enhanced harmonization, we see the need for a flexible approach to respect the diversity of Asia-Pacific markets. In order to facilitate implementation in the region, international standards should and avoid a "one-size-fits-all" approach.

The following are our responses and recommendations in the areas which may be relevant to the long-term business and investments of the insurers and pension funds, where further improvements increase the relevance and usefulness for users of financial reports, and enhance practicality for preparers.

In doing so, we are only submitting comments on specific questions because of the special due process requirements to obtain a consensus. At a later date, we might supplement these comments with the hope they would be considered by the Board in its deliberations.

### **Question 13 – Reporting items of income or expenses in other comprehensive income**

*Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? If you disagree, what alternative do you suggest and why?*

The Exposure Draft (para.7.24) proposes that income or expenses could be reported outside the statement of profit or loss and included in other comprehensive income (OCI) only if:

- (a) the income or expenses related to assets or liabilities measured at current values; and
- (b) excluding those items from the statement of profit or loss would enhance the relevance of the information in the statement of profit or loss for the period

As we noted our previous comment letters, the ABAC supports a wider use of OCI both in assets and liabilities to better reflect the long-term nature of the business, for example in the case of long-term insurers and pension funds. Short-term fluctuations in the statement of profit or loss may distort the relevance of the information on performance for the period, where such fluctuations are irrelevant for predicting the cash flows of the entity, particularly in the case of long-term business and investments. The use of OCI for presenting changes is potentially a significant improvement, but not in isolation. The use of OCI should be optional in order to avoid accounting mismatch between assets and liabilities. We also believe that the treatment of changes in estimated cash flows and that of discount rates should be consistent to reflect the economic reality and to provide relevant and useful information to users.

### **Question 14 – Recycling**

*Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?*

The Exposure Draft (para. 7.26) proposes a rebuttable presumption that items of income or expenses included in other comprehensive income in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period.

The ABAC believes that items of income and expenses presented in OCI should be permitted to be recycled, since it often better reflects how an entity conducts its business, and therefore leads to a faithful representation of the performance for the reporting period. It would also build a clearer linkage between the financial performance and the financial condition of the entity. In this regard, we are not persuaded why the recycling criteria are different for debt and equity instruments. We note that the absence of recycling of equity instruments may dis-incentivize the institutional investors to engage in such investments, as a possible unintended consequence arising from this inconsistency.

### **Question 16 – Business activities**

*Do you agree with the proposed approach to business activities? Why or why not?*

The Exposure Draft (BCIN.28-34) does not include a general discussion on the role of a business model in financial reporting, but discusses how an entity conducts its business activities may affect (a) the unit of account, (b) the selection of a measurement basis for an asset or a liability and related income and expenses, and (c) presentation and disclosure, including items of income and expenses in other comprehensive income.

The ABAC supports the view that financial statements could be more relevant if standards reflect how an entity conducts its business. Furthermore, consideration of the business model may provide a faithful representation of the economic reality and result in more relevant information. For example, we note that the choice of discount rate, among others, should be reflective of the business model of the entity. It is also important to taken into account the different development stage. For example, in many economies, including those in emerging markets, there is an observable but no deep and liquid market. We believe that the application of prescriptive international standards may not ensure overall comparability or a level playing field, due to the existing diversity in the region and around the globe.

### **Question 17 – Long-term investment**

*Do you agree with the IASB's conclusions on long-term investment? Why or why not?*

The Exposure Draft (BCIN.35-44) discusses the implications of long-term investment and long-term financing for the Conceptual Framework. The IASB proposes (BCIN. 36-38) that the Conceptual Framework should not refer explicitly to the business activity of long-term investment, because they believe that it would inappropriately embed Standards-level detail in the Conceptual Framework, and the Conceptual Framework does not refer to any other particular business activity. Also, the IASB disagrees (BCIN. 39-43) with the view that the Conceptual Framework should emphasize the information needs of long-term investors and that their information needs may differ from those of short-term investors, and concluded that the Conceptual Framework contains sufficient and appropriate discussions of primary users and their information needs, and on the objective of general purpose financial reporting, to address appropriately the needs of long-term investors.

The ABAC believes that short-term oriented economic valuation tends to capture the assessment with a snapshot, which may be relevant for short-term investors, and do not necessarily provide useful information and transparency needed for long-term investors who wish to determine such investments that are good in the long run, rather than appear good at a given moment. While economic valuation may be a useful indicator in determining a future long term direction when used appropriately, the illiquid nature of liabilities and the ability to take time in adjusting positions should be properly taken into account when designing the accounting regime. Short-term fluctuations, which tend to become significant for long-term business, may not be relevant to the entity's capacity to meet long term obligations. The interaction between assets and liabilities should be properly reflected. If the IASB is reluctant to treat long-term investments as an exception, focusing on the long-term nature of business activities (as we responded to Question 16) may be an effective solution.

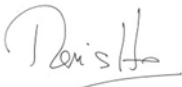
The IASB emphasizes (BCIN. 44) the role of accounting standards in relation to promoting long-term investments through transparent financial reporting, and that it is not the role of accounting standards to encourage or discourage investments that have particular characteristics.

We understand that encouraging long-term investments may not be a primary objective of accounting standards, and that transparent financial reporting would promote long-term investments. However, our key message is that short-term minded accounting standards which do not reflect the long-term nature of business activities would not provide transparency or useful information for long-term investors, and at the same time produce significant volatility for long-term investments, and as a result, would dis-incentivize long-term investments.

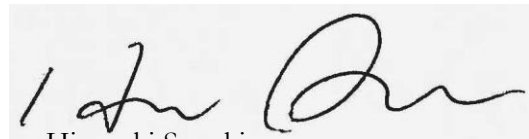
Again, we appreciate the opportunity to provide these comments to the Boards. ABAC encourages the IASB to collaborate with experts in the APFF Insurance and Retirement Income Work Stream in further developing ideas on ways to accommodate the various recommendations raised in the letter.

As a business community body that works closely in a public private partnership with APEC, we welcome continued dialogue and opportunities for future collaboration with IASB on these matters to promote stability in our region and the global economy, while facilitating the further development of the insurance and pension industry's tremendous potential to contribute to sustained, balanced and inclusive growth in the Asia-Pacific region and the world.

Sincerely,



Doris Ho  
ABAC Chair



Hiroyuki Suzuki  
Chair, ABAC Finance and Economics  
Working Group  
Chair, Asia Pacific Financial Forum