

Report of the Emerging Economies Group Meeting

December 2019

Emerging Economies Group

The Emerging Economies Group (EEG) was established in 2011 at the direction of the IFRS Foundation Trustees, with the aim of enhancing the participation of emerging economies in the development of IFRS Standards.

This Report of the EEG provides a summary of the 18th EEG meeting held in Xiamen, China on 2–4 December 2019, hosted by the Ministry of Finance of the People's Republic of China and the China Accounting Standards Committee.

The EEG meeting was chaired by Darrel Scott, a member of the International Accounting Standards Board (Board).

18th EEG meeting agenda

Agenda topics included:

- Primary Financial Statements
- Interest Rate Benchmark Reform (IBOR)
- Comprehensive Review of the *IFRS for SMEs*[®] Standard
- Due Process Handbook Review
- IAS 16 Update on Exposure Draft *Property, Plant and Equipment: Proceeds before Intended Use*
- 2020 Agenda Consultation
- China's experience on implementation of IFRS 9 *Financial Instruments*
- Extractive Activities

The agenda papers for the meeting are available on the IFRS Foundation website:

<http://www.ifrs.org/groups/emerging-economies-group/#meetings>

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[Further information about the Emerging Economies Group is available on the IFRS Foundation website.](#)

The next Emerging Economies Group meeting will take place in South Africa on 11–13 May 2020.

Welcome

Mr Gao, Director General, Ministry of Finance, People's Republic of China, opened the meeting by welcoming members of the EEG. He spoke of the importance of the EEG in:

- (a) facilitating discussion among its members;
- (b) enabling members to share domestic experience on applying IFRS Standards; and
- (c) providing advice and feedback to the Board.

Hans Hoogervorst, Chair of the Board, thanked the Ministry of Finance for hosting the meeting in China and for its support to the EEG, including providing the secretariat.

Primary Financial Statements

Introduction

Hans Hoogervorst introduced the first discussion topic: Primary Financial Statements. He noted that the Board would shortly issue an Exposure Draft proposing new requirements on the structure and content of financial statements. The Exposure Draft will set out proposals to improve how information is communicated in financial statements, focusing on the statement of profit or loss¹.

Subtotals in the statement of profit or loss

Darrel Scott, Board member, set out the forthcoming proposals for the structure of the statement of profit or loss including introducing new subtotals.

EEG members discussed:

- (a) that the proposal from the Primary Financial Statements project defines operating profit as a residual. An EEG member commented that this was in effect an 'all inclusive' approach to the definition of operating profit as opposed to a 'pure' operating profit approach. The member said that it will be important for the Board to work closely with stakeholders, particularly regulators, to explain how the forthcoming proposals could change operating profit as currently defined in their jurisdiction.
- (b) that the forthcoming proposals do not require cohesiveness between the statement of profit or loss and the statement of cash flows. A member noted that the gain or loss on disposal of property, plant and equipment would be part of operating profit or loss, but the proceeds from a sale would be presented in investing activities in the statement of cash flows.
- (c) where the following items would be presented in the statement of profit or loss:
 - (i) gains and losses on the restatement of non-monetary assets and liabilities when applying IAS 29 *Financial Reporting in Hyperinflationary Economies*.
 - (ii) income from financing activities with customers—for example, retailers often provide financing to customers.
 - (iii) donations that are mandated—for example, contributions to corporate social responsibility funds required by local law.
 - (iv) the unwinding of the discount on a defined benefit obligation. Some EEG members considered the unwinding as an operating item, whereas others agreed with the forthcoming proposals that the unwinding should be included in financing activities.

Presentation of associates and joint ventures

Darrel Scott presented the forthcoming proposals that will require separate presentation of 'integral' and 'non-integral' associates and joint ventures in the statement of profit or loss and statement of cash flows.

¹ The Board published its proposals on 17 December 2019 (<https://www.ifrs.org/news-and-events/2019/12/iasb-proposes-to-bring-greater-transparency-to-non-gaap-measures/>).

Although overall EEG members supported the forthcoming proposals, they found it difficult to understand why an entity would have a 'non-integral' associate or joint venture. An EEG member suggested an alternative approach—to presume that all associates and joint ventures are 'integral' and allow this presumption to be rebutted in certain circumstances.

Some EEG members noted that in their jurisdiction, international investors were required to have a local partner, and therefore the presentation of associates and joint ventures is very important. The forthcoming proposals would change current practice, and could increase the cost of preparing and auditing financial statements.

EEG members agreed that entities need to use judgement to assess whether an associate or joint venture is 'integral' or 'non-integral'.

EEG members asked if the assessment of whether an associate or joint venture is integral or non-integral is made once, or if and when reassessment may or must be made.

EBITDA (earnings before interest, tax, depreciation and amortisation)

There were mixed views among the EEG members that the forthcoming proposals would not include a subtotal for EBITDA. Some EEG members thought that the subtotal could be included, whereas others noted the divergence in current definitions and practice and agreed with the Board's decision.

Classification of profit and loss items

EEG members were concerned about the forthcoming proposal that FX gains or losses should be allocated to the underlying item to which they relate. Specifically, members thought that the allocation could be costly to prepare and would be arbitrary.

Presentation for financial entities

EEG members discussed the proposed approach to operating profit for financial entities, including the application of the proposals to entities engaging in Islamic financial transactions.

Proposals to improve aggregation and disaggregation

EEG members discussed the forthcoming proposal to:

- (a) require a presentation of operating expenses by nature or by function in the statement of profit or loss depending on which presentation provides the most useful information to users; and
- (b) require in the notes to the financial statements, disclosure of operating expenses by nature, if the statement of profit or loss is presented by function.

Some EEG members noted that in their jurisdiction laws include required formats for the presentation of primary financial statements. These members said the Board should consider the time needed to amend local laws when setting the effective date of any new IFRS Standard.

An EEG member said that it would be important to provide guidance on the meaning of how to assess which presentation provides the most useful information.

Unusual income and expenses

EEG members discussed the forthcoming proposals to define unusual income and expenses and to require those definitions to be included in a single note to the financial statements.

Overall EEG members supported the proposed approach but said that unifying current practice and enforcement would be challenging. EEG members commented that:

- (a) in some jurisdictions the regulator provides pre-clearance approval on the presentation of unusual items;
- (b) an alternative word to 'unusual' might be 'non-recurring'; and
- (c) consistency between management commentary and financial statements for the disclosure of unusual items would be desirable.

Management performance measures

EEG members discussed the forthcoming proposals to define what a 'management performance measure' is and to require an entity to disclose such measures in a single note to the financial statements. EEG members said:

- (a) the potential audit implications of a management performance measure need to be considered. These implications include an audit assessment of whether the measure communicates management's view of an aspect of an entity's financial performance.
- (b) the forthcoming proposals might not lead to comparability between entities.
- (c) There is an interaction between the forthcoming proposals and IAS 33 *Earnings per Share* and IFRS 8 *Operating Segments*.
- (d) 'management performance measure' might not be the correct description. 'Voluntary sub-total' could be a better description.

The Board members said that the forthcoming proposals aim to make management performance measures more transparent, and that the Board has acknowledged and accepted that, by definition, it was unlikely that such measures would be comparable.

Targeted improvements to the statement of cash flows

EEG members discussed the forthcoming targeted improvements to the statement of cash flows, including requiring an entity to use the operating profit or loss subtotal as the starting point for reporting cash flows from operating activities.

EEG members supported the forthcoming proposals, although some members would have preferred a more comprehensive review of the statement of cash flows.

IBOR—Overview of Phase 1 and progress of Phase 2

Jianqiao Lu, Board member, presented an overview of the Board's project to resolve the accounting issues arising from interest rate benchmark reform.

EEG members supported the Board addressing the issues in two phases.

In relation to Phase 2, EEG members:

- (a) proposed that the Board should not restrict its consideration to financial instruments in the scope of IFRS 9 *Financial Instruments*, but should also consider contracts that can be linked to IBOR: leases, insurance and revenue contracts. EEG members said they hoped that the Board could provide consistency across IFRS Standards.
- (b) asked whether the Board would address the modification of financial assets that the IFRS Interpretations Committee had considered in 2016.

It was noted that the Board intends to issue an Exposure Draft of proposed amendments during 2020 and may request the Due Process Oversight Committee to consider a comment period of less than 90 days.

Comprehensive Review of the IFRS for SMEs Standard

Darrel Scott and Michelle Sansom, technical staff, provided an overview of the Board's approach to the second comprehensive review of the *IFRS for SMEs* Standard.

Darrel Scott outlined the approach and the principles that the Board had applied in deciding whether to seek views on aligning the *IFRS for SMEs* Standard with IFRS Standards in the scope of the review.

On alignment, EEG members' commented that:

- (a) the Board should give reasons why the *IFRS for SMEs* Standard should be aligned with IFRS Standards;
- (b) for SMEs, accounting standards should focus on business activities;
- (c) the undue cost and effort exemption available in some circumstances can be difficult and costly to apply; and
- (d) the Subsidiaries that are SMEs project may affect the *IFRS for SMEs* Standard.

EEG members also commented on the alignment of the *IFRS for SMEs* Standard with specific IFRS Standards, saying:

- (a) IFRS 16 *Leases* is complex to apply. The Board may wish to wait until the next comprehensive review of the *IFRS for SMEs* Standard before considering alignment, so that further implementation experience is available.
- (b) it might be appropriate not to introduce the option to measure non-controlling interests at fair value, given the option is available in IFRS 3 (2008) *Business Combinations*.

EEG members asked whether the Board intended to update *A Guide for Micro-sized Entities Applying the IFRS for SMEs*.

The Saudi Arabian EEG member presented a paper on the measurement of defined benefit obligations and application of simplifications permitted in the *IFRS for SMEs* Standard to measure defined benefit obligations. The Board would ask for views on the application of these simplifications in the Request for Information on the second comprehensive review of the *IFRS for SMEs* Standard.

Due Process Handbook

Michelle Sansom provided an overview of the IFRS Foundation Trustees' project to update the *Due Process Handbook*.

EEG members discussed the role of agenda decisions that the IFRS Interpretations Committee publishes, noting that agenda decisions cannot add or change requirements in IFRS Standards, because they do not amend IFRS Standards.

Some EEG members said it was difficult to engage with local regulators regarding the authority of agenda decisions; they also expressed their approval of and supported the proposal to clarify the role of agenda decisions in the *Due Process Handbook*.

EEG members endorsed enhancing the due process that underpins agenda decisions, saying that comment letters responding to tentative agenda decisions, need to be carefully considered. Members agreed that the IFRS Interpretations Committee has to balance due process and timely response to issues.

An EEG member drew attention to the importance of ensuring agenda decisions are published only when required—a plethora of agenda decisions could lead to rule-based IFRS Standards. Another EEG member asked whether the Board should review criteria for submission of issues to the IFRS Interpretations Committee.

An EEG member said it was important to plan the IFRS Interpretations Committee's agenda to ensure there is enough time for the Committee members to discuss the agenda items.

Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

IFRS 10 Consolidated Financial Statements

EEG members said that overall IFRS 10 works well. However, they said that, as part of the Post-implementation Review (PIR) the Board could consider:

- (a) how an entity decides what the relevant activities are and whether those activities change;
- (b) how to determine if a right is a protective right;
- (c) identifying changes in voting rights when an option changes from 'out of the money' to 'in the money';
- (d) identifying the principal where an agent is identified;
- (e) subsequent measurement of non-controlling interests, including accounting for intra-group transactions;
- (f) non-controlling interest put options, as set out in IAS 32 *Financial Instruments: Presentation*; and
- (g) whether IFRS 10 should provide additional guidance on special purpose entities.

IFRS 11 Joint Arrangements

EEG members suggested two areas for the Board to consider in the PIR of IFRS 11:

- (a) the interaction between IFRS 11 and IFRS 16 *Leases* and IAS 23 *Borrowing Costs*; and
- (b) if guidance is missing from IFRS 11 for increasing the investment in a joint arrangement but not acquiring control.

IFRS 12 Disclosure of Interests in Other Entities

EEG members considered that IFRS 12 works well and suggested two areas the Board could consider in the PIR:

- (a) for unconsolidated structured entities it can be difficult to obtain information required for the disclosures; and
- (b) what to disclose when an entity has de facto control.

IAS 16—Update on Exposure Draft *Property Plant and Equipment: Proceeds before Intended Use*

Jianqiao Lu provided an update on the Board's project to address how to account for the proceeds from selling items before an item is available for use. The Board has concluded its deliberations and confirmed its approach to require an entity to recognise any sales proceeds and related costs in profit or loss in accordance with the applicable IFRS Standard.

The EEG members discussed the Board's tentative decision and commented that the forthcoming amendment would help entities to apply IFRS Standards.

2020 Agenda Consultation

EEG members discussed projects the Board could include in the Request for Information on the 2020 Agenda Consultation. EEG members had listed potential projects before the meeting. Attendees discussed several of these.

Assets acquired for free

EEG members gave three examples of assets provided for free:

- (a) assets from transactions with owners—for example, an owner providing a property for an entity to use without charging for it;
- (b) equipment or containers provided by a supplier that are part of the manufacturing process; and
- (c) emissions allowances provided as a part of emissions trading schemes.

Borrowing costs

An EEG member reported that the recent Agenda Decision *Expenditures on a qualifying asset* had not been well received in their jurisdiction, and that IAS 23 is an old Standard that might not be aligned with the *Conceptual Framework for Financial Reporting*.

Cryptocurrencies

EEG members acknowledged the Agenda Decision *Holdings of cryptocurrencies*, but supported a wider and more comprehensive project on the topic.

Intangible Assets

Some EEG members said that IAS 38 *Intangible Assets* needs to be updated. Other members suggested that the Board introduce guidance on accounting for cryptocurrencies, which would address the deficiency in IAS 38.

Going concern

Some EEG members said the Board should address how to prepare financial statements for an entity that is in different stages of financial distress.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

EEG members discussed a potential project to update IAS 20, which members described as an older Standard that could be updated for the *Conceptual Framework*.

IFRS 16

Some EEG members suggested that IFRS 16 was not complete because lessor accounting had not been updated when IFRS 16 was issued. Other EEG members proposed the Board initiate a project as a consequence of recent agenda decisions on IFRS 16. Not all EEG members agreed to add this topic to the Board's agenda. Some EEG members suggested the agenda consultation be used to ask how soon after implementation a Standard should be subject to a PIR.

IFRS 9 implementation experience in China

The EEG member from China provided an overview of the implementation of IFRS 9 *Financial Instruments*, as adopted in China. She said that challenges included obtaining the data required to build the models for expected credit losses and the application of judgement to determine assumptions in those models.

Accounting for Non-public Interest Entities in Turkey

The EEG member from Turkey provided a comprehensive overview of the framework for financial reporting requirements in Turkey and the improvements introduced in the updated framework.

Extractive Activities—Scope of the project

EEG members provided feedback from their jurisdictions about extractive industries to help the Board to decide whether to undertake a standard-setting project. The members provided an overview of the industry structure in their jurisdictions, which showed that many jurisdictions have state-owned entities.

IASB project update

The Board members asked EEG members for comments on other sections of the Board's work programme.

Next meeting

The next meeting of the EEG will be held in South Africa on 11–13 May 2020.

Disclaimer: This note is prepared by staff of the International Accounting Standards Board (the Board) and summarises the discussion that took place at the Emerging Economies Group meeting.