

Report of the Emerging Economies Group Meeting

May 2020

About the 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 19th EEG meeting held via remote participation on 11–12 May 2020.

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

19th EEG meeting agenda

Agenda topics included:

- Business Combinations—Disclosures, Goodwill and Impairment;
- IFRS 17 *Insurance Contracts*;
- Applying IFRS Standards in 2020—Discussion on impact of covid-19;
- Comprehensive review of the *IFRS for SMEs* Standard;
- Primary Financial Statements;
- Management Commentary; and
- Update on IASB projects.

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.](http://www.ifrs.org)

Opening comments

Darrel Scott, Board member, welcomed the EEG members to the first virtual meeting of the EEG.

Business Combinations—Disclosures, Goodwill and Impairment

Dehao Fang and Tim Craig, technical staff, provided an overview of the Board's Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.

The aim of this session was for EEG members to discuss their initial views on the Discussion Paper.

Improving disclosures about business combinations

EEG members discussed the Board's preliminary views on improving disclosures on the subsequent performance of business combinations and targeted improvements to IFRS 3 *Business Combinations* disclosure requirements.

EEG members commented that:

- (a) disclosure of the metrics management use to monitor the performance of acquisitions may be commercially sensitive;
- (b) additional disclosures on the subsequent performance of acquisitions may be extensive and could lead to a significant increase in costs; and
- (c) requiring an entity to disclose the fact that management is not monitoring an acquisition could have audit implications—the disclosure may call into question the effectiveness of internal controls.

One EEG member questioned whether the management approach could result in disclosures that are too varied and therefore do not meet investors' needs. This member also queried whether the term 'chief operating decision maker' was sufficiently robust to identify the information that would need to be disclosed, given the findings of the Post-implementation Review of IFRS 8 *Operating Segments*.

Improving the accounting for goodwill

EEG members had mixed views on whether to reintroduce amortisation of goodwill.

Those EEG members supporting reintroduction of amortisation said amortisation allocates the cost of goodwill as the benefits it represents are recognised. One EEG member recommended the Board investigate the possible impact of reintroducing amortisation on entities' financial performance, given the size of some goodwill balances.

Those EEG members in favour of retaining the impairment-only approach did not consider goodwill a wasting asset and did not consider amortisation provides useful information.

Some EEG members said if the Board removes the requirement to test cash-generating units containing goodwill for impairment at least annually, that may delay the recognition of impairment losses.

Other topics

Some EEG members disagreed with the Board's preliminary view that presenting total equity excluding goodwill on the statement of financial position would provide useful information.

One EEG member said stakeholders are likely to consider the preliminary views set out in the Discussion Paper in isolation rather than as a package.

IFRS 17 Insurance Contracts

Darrel Scott provided an update on the project to amend IFRS 17.

The aim of this session was to update the EEG members on the project's progress.

Amendments to IFRS 17

Darrel Scott outlined the process the Board has followed in developing targeted amendments to the Standard to support entities implementing the new requirements for insurance contracts. He explained the criteria that the Board had applied in deciding whether to propose amendments to IFRS 17 and in responding to feedback from respondents on the Exposure Draft the Board issued in June 2019.

Regarding the Board's tentative decision to defer the effective date by two years from the original date to 2023, an EEG member commented that the explanation provided about the Board's decision was well informed.

Regarding the Board's tentative decision to retain, unchanged, the requirements in IFRS 17 related to insurance contracts acquired in their settlement period, another EEG member asked whether the Board has considered the implications of applying those requirements to insurance contracts transferred between entities within a consolidated group.

IFRS 17 implementation activities

It was noted that the Board expects to issue the amendments to IFRS 17 around the end of June 2020. The Board considered that the issuance of the amendments, including the deferral of the effective date, would provide a stable platform for entities, including the smaller entities, to complete their implementation of the Standard. In addition to the amendments to IFRS 17, the Board has undertaken other activities to support implementation, including developing educational material and holding meetings of the Transition Resource Group for IFRS 17 (TRG).

Darrel Scott noted that only a limited number of the educational materials available on the IFRS Foundation website are affected by the amendments. As a consequence, there is no plan to withdraw the materials, because they have proven very helpful. Nonetheless, when the amendments are issued, the staff of the IFRS Foundation plan to make available a new webcast that will explain what changes have been introduced by the amendments, following the order of the other webcasts already available on the IFRS Foundation website so that it is easier for stakeholders to understand how to read and use the educational material.

One EEG member welcomed that the TRG has not been disbanded and is available for consultation by the Board if needed, although it is expected that, similar to other IFRS Standards, some application questions relating to IFRS 17 will be addressed through the IFRS Interpretations Committee.

Applying IFRS Standards in 2020—Discussion on impact of covid-19

Tadeu Cendon, Board member, provided an overview of the activities the Board is undertaking to support stakeholders during the covid-19 crisis.

The aim of the session was to provide EEG members with an update of the Board's activities and enable EEG members to share experiences arising from the covid-19 pandemic.

EEG member comments included:

- (a) a suggestion that the Board should strategise on tackling long-term impacts of covid-19, such as remote relationships and communication with its stakeholders. Additionally, the member emphasised the importance of digitalisation of the standard-setting process as a long-term goal.
- (b) the Board should provide guidance on meaning of contractual cash flows in IFRS 9 *Financial Instruments*. The member said it is difficult for entities to assess whether government intervention as a result of covid-19 is a modification of contractual cash flows.

Two EEG members asked whether the scope of IFRS 16 *Leases* proposed amendments include rent concessions beyond 2020. In their view the impact of covid-19 could extend beyond 2020. A Board member replied that the scope of the relief is rent concessions that are a direct consequence of covid-19 and the proposals set out in the Exposure Draft will only include lease payments originally due in 2020. However, the Board member noted that this point had been raised in the comment letters that will be discussed at the May 2020 supplementary Board meeting.¹

Several EEG members noted their organisations have developed educational materials to respond to application issues as a result of covid-19. The members emphasised that the educational materials are consistent with IFRS requirements.

Darrel Scott said that the Board stands ready to support jurisdictions on IFRS application issues that they may encounter. He encouraged EEG members to submit application issues via the IFRS Interpretations Committee.

Michelle Sansom, technical staff, said that the IFASS ShareFile site was being updated with educational materials from national standard-setters. Moreover, EEG members can access ShareFile for reference if they plan to develop any educational materials.

Comprehensive review of the *IFRS for SMEs* Standard

Nkumbulo Mabaso, technical staff, provided a brief overview of the Request for Information on the Comprehensive Review of the *IFRS for SMEs*[®], published by the Board in January 2020.

The aim of this session was for EEG members to discuss their initial views on the Request for Information. The EEG members from Saudi Arabia and Malaysia presented initial views on the Request for Information.

The EEG member from Saudi Arabia supported the simplified IFRS approach outlined in the Request for Information, agreeing that applying this approach, the *IFRS for SMEs* Standard is aligned with IFRS Standards. However, the member proposed a three-step approach:

- (a) consider IFRS Standards effective before publication of the Request for Information;
- (b) identify areas where the 'undue cost or effort exemption' may be applicable to SMEs without damaging the quality of information reported to users; and
- (c) consider the purpose of SME financial statements.

The EEG member explained the benefits of the three steps: (i) reduced cost for the Board to maintain the *IFRS for SMEs* Standard, (ii) efficiency in the education of accountants and users, and (iii) reduced cost of implementation.

The member agreed with the alignment principles set out in the Request for Information but expressed a concern as to how simplicity is applied in the *IFRS for SMEs* Standard. The member said the deletion of text from IFRS Standards without considering the effect on the preparers' ability to follow the requirements in the *IFRS for SMEs* Standard makes the *IFRS for SMEs* Standard difficult to apply without reference to IFRS Standards.

The EEG member agreed with aligning Section 2 of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting (Conceptual Framework)*. However, he disagreed with retaining the concept of 'undue cost or effort' and explained the challenges faced by preparers in applying the concept.

The member from Malaysia also supported the simplified IFRS approach and explained that there are merits in reducing the gap between the *IFRS for SMEs* Standard and IFRS Standards. However, the EEG member cautioned on the need to consider the possible implications of alignment and on the Board's need to leverage implementation experience from IFRS Standards through post-implementation reviews.

¹ May 2020 supplementary IASB meeting: covid-19-related matters: <https://www.ifrs.org/news-and-events/calendar/2020/may/supplementary-international-accounting-standards-board-meeting/?f1=2020&f2=May&f3=>

On alignment principles, the EEG member suggested the Board consider a fourth principle—the cost benefit. Applying the ‘relevance’ principle, proposed changes should not disadvantage the majority of SMEs in favour of a minority.

As regards when to consider alignment the member suggested that new IFRS Standards effective for a period of two years before the publication of the Request for Information, as well as amendments to IFRS Standards and IFRIC Interpretations which have been effective before the publication of the Request for Information should be considered for alignment.

In contrast to the EEG member from Saudi Arabia, the Malaysian member did not support alignment with 2018 *Conceptual Framework* because the 2018 *Conceptual Framework* was not applied by the Board when developing major IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

In addition, the EEG member noted the authority of the Conceptual Framework is different between IFRS Standards and the *IFRS for SMEs* Standard; in IFRS Standards the Conceptual Framework is not a Standard whereas the *IFRS for SMEs* Standard includes the concepts and basic principles underlying the financial statements of SMEs in a separate section of the Standard and therefore the concepts and basic principles have the authority of a Standard.

The EEG member from India supported the simplified IFRS approach but recommended alignment should only be considered if there is a fundamental weakness in the *IFRS for SMEs* Standard.

The South African member also supported the simplified IFRS approach; however, he noted in South Africa there are different views on when to consider alignment.

The EEG member for China recommended that the Board should consider if alignment might result in complexity of the *IFRS for SMEs* Standard and could increase costs for preparers.

The EEG member for Turkey supported alignment of key definitions such as control and fair value in the *IFRS for SMEs* Standard with IFRS Standards. There were mixed views among EEG members on whether to align the *IFRS for SMEs* Standard with IFRS 16 *Leases*, as part of this comprehensive review.

Primary Financial Statements

Il-Hong Park, technical staff, provided an overview of the proposals included in the Exposure Draft *General Presentation and Disclosures* published by the Board in December 2019.

The aim of this session was for EEG members to discuss their initial views on the Exposure Draft. The EEG members from Malaysia and South Africa presented initial views based on feedback from their stakeholders to date.

Subtotals and categories in the statement of profit or loss

Overall EEG members supported the proposals in the Exposure Draft, with an EEG member noting that regulators in their jurisdiction also support the proposals.

Many EEG members asked for consistency between the definitions and the terminology used in the statement of profit or loss and cash flow statement, especially for investing and financing categories. The technical staff explained that alignment is not a priority for users and, consequently, the Board is not proposing to align the two statements as part of this project.

Some EEG members disagreed with the proposal to define operating profit as a residual. Some also suggested operating profit should exclude unusual items. In their view a subtotal that includes unusual items would not be relevant for predicting future earnings and might not provide a faithful representation of the entity’s operating view. One EEG member did support the residual approach, noting it would stop entities creating an ‘other category’ for items that do not fit into any category.

An EEG member said allowing an accounting policy choice for entities that provide financing to customers as a main business activity, to classify all or some income and expenses from financing activities, might undermine comparability.

Integral and non-integral associates and joint ventures

EEG members reported differing views on the proposals regarding integral associates and joint ventures.

An EEG member said IFRS 12 *Disclosures of Interests in Other Entities* already requires comprehensive disclosures about investments in associates and joint ventures, the member suggested the distinction between integral and non-integral associates and joint ventures be made in the notes to the financial statements.

Unusual items

One EEG member said there might be a risk that preparers may use the note on unusual items to influence users' views about their financial performance. This EEG member also said the relationship between unusual items and extraordinary items was unclear.

Management performance measures (MPMs)

An EEG member asked how the proposals would apply in the scenarios when:

- (a) an entity plans to communicate an MPM publicly but has not already done so at the time of completion of the financial statements; and
- (b) the reporting period for MPMs is different to the reporting period for the financial statements.

An EEG member suggested disclosure of MPMs should be included in management commentary rather than the notes to the financial statements. In this member's view the note will be costly to prepare and audit.

Digital reporting

An EEG member said that the proposals included in the Exposure Draft do not appropriately apply to electronic reports but only to paper-based reports. In his view, electronic reports do not need to aggregate information in the primary financial statements and the Exposure Draft did not appropriately explore the possibility of future electronic reporting. A Board member responded that even for electronic reports, users still require application of materiality and aggregation of information, but agreed that the Board does need to continue thinking about the impact of electronic reporting on the IFRS Standards that it sets.

Other comments

An EEG member said his stakeholders are concerned about having to implement new IFRS Standards having implemented recent major IFRS Standards, for example IFRS 16 *Leases*. A Board member said this project brings important changes that would address users' urgent demands in today's globalised investment decision-making.

Management Commentary

Maria-Claire Tabone, technical staff, provided an overview of the Board's project to revise IFRS Practice Statement 1 *Management Commentary* (Practice Statement), including the Board's tentative approach to establishing disclosure objectives for the main areas of content in a management commentary.

The aim of this session was to provide an update to the EEG members on the project, including on the Board's tentative decisions.

EEG members raised several questions:

- (a) what will be the status of the revised Practice Statement? The staff explained that the revised Practice Statement is expected to remain non-mandatory, so entities applying IFRS Standards would not be required to comply with the Practice Statement, unless a jurisdiction requires such compliance.
- (b) can the Practice Statement become too complex for entities in emerging economies? The staff replied that extended guidance, possibly with examples, and using simple language in the revised Practice Statement is intended to help all preparers, including entities in emerging economies and smaller entities, provide useful information in their management commentaries.
- (c) should management commentary provide information about future plans of the entity, especially those related to uncertain situations with potential going concern implications? The staff explained that the revised Practice Statement is expected to include guidance to help entities address such situations in management commentary.
- (d) is the Board seeking to align the revised Practice Statement with the International Integrated Reporting <IR> Framework? The staff explained that in revising the Practice Statement they are considering guidance and examples provided in other narrative reporting frameworks, including the <IR> Framework. The staff plan to align terminology where possible and to explain the meaning of used terms if they are ambiguous or could be interpreted differently.

EEG members also suggested that the Board should consider interaction between financial statements and management commentary, including:

- (a) indicating when management commentary should provide additional explanations of information in financial statements;
- (b) avoiding duplication of information in the notes to financial statements and in management commentary; and
- (c) considering whether some disclosures suggested in the Board's other projects, for example, those on the success of acquisitions, belong better in management commentary.

A few EEG members expressed support for including guidance on reporting ESG matters and intangibles in management commentary.

Next meeting

Considering the covid-19 pandemic EEG members will review arrangements for the next EEG meeting at least six weeks before the scheduled meeting. The next meeting is due to be hosted by the Institute of Chartered Accountants of India.

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