IFRS Accounting

Meeting summary

Emerging Economies Group

Date **5-6 December 2022**

This document summarises a meeting of the Emerging Economies Group (EEG). The EEG was created 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 Accounting Standards. The members of the EEG are nominated National Standard-Setters (NSS) from emerging economies.

Report of the Emerging Economies Group

1. This Report summarises the 24th EEG meeting hosted on 5–6 December 2022 by the Saudi Organization for Chartered and Professional Accountants (SOCPA) in Riyadh, Saudi Arabia, with some attendees participating remotely.

2. Tadeu Cendon, a member of the International Accounting Standards Board (IASB), chaired the meeting.

3. Tadeu Cendon welcomed the EEG members to the meeting and thanked SOCPA for hosting the meeting and the Chinese Ministry of Finance for providing the EEG secretariat.

24th EEG meeting agenda

4. Agenda topics included:
   - Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard;
   - Turkey's experience with hyperinflation;
   - Mexican accounting standard on cryptocurrencies;
   - Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*;
   - The Business Combinations under Common Control project; and
   - Updates on IASB and IFRS Interpretations Committee activities.

The agenda papers for the meeting are available on the IFRS Foundation's website: https://www.ifrs.org/groups/emerging-economies-group/#meetings.

Second Comprehensive review of the *IFRS for SMEs* Accounting Standard

5. The IFRS Foundation's staff provided EEG members with an overview of the Exposure Draft Third edition of the *IFRS for SMEs* Accounting Standard (Exposure Draft), published by the IASB in September 2022.

6. The staff explained the proposals set out in the Exposure Draft and asked EEG members for their views on some of the proposals.

Clarifying the scope of the *IFRS for SMEs* Accounting Standard

7. Three EEG members expressed general support for the IASB's proposal to clarify the scope of the *IFRS for SMEs* Accounting Standard (Standard). These EEG members:

a) said such a clarification could be made in education material instead of in the Standard itself.
b) said that providing illustrative examples to explain the term 'broad group of outsiders' used in defining the scope of the Standard would be helpful to SMEs.
c) suggested the IASB consider defining the term 'fiduciary capacity' to help ensure consistent application of the Standard. The EEG members acknowledged the disruption introducing a definition might cause at this stage in the life of the Standard but said the benefit of such a clarification would outweigh any possible disruption.

8. With regard to clarifying the definition of public accountability, one EEG member suggested the IASB develop a monetary threshold to guide preparers applying the *IFRS for SMEs* Accounting Standard

Main proposals in the Exposure Draft

Concepts and pervasive principles

9. Two EEG members agreed with the IASB's proposal that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definition of 'asset' and 'liability' from Section 2 *Concepts and Pervasive Principles* that are based on the 1989 *Conceptual Framework for Financial Reporting*. Further:
   a) one EEG member said the proposal is practical and consistent with the approach in IFRS Accounting Standards; and
   b) one EEG member suggested that, to support this proposed approach, the IASB include in the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard the explanation provided in the Basis for Conclusions on the 2018 *Conceptual Framework for Financial Reporting* which justified retaining the definition of assets and liabilities based on the 1989 *Conceptual Framework* in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets*.

10. Two EEG members disagreed with the proposals because, in their view, having two different definitions of 'asset' and 'liability' in the Standard could introduce confusion.

Financial instruments

11. EEG members discussed the IASB's proposal to introduce an expected credit loss model for financial assets other than trade receivables and contract assets. Some EEG members expressed concerns, for example:
   a) one EEG member disagreed with the proposal because in his view the Standard should require that one model is applied for all financial assets. The member said this model could be either the incurred loss model or the expected credit loss model because, in that member's view, the expected credit loss model could be relevant to some SMEs.
   b) two EEG members expressed concerns about SMEs' ability to apply the expected credit loss model given the complexity of applying an expected credit loss model and the resource constraints typical of SMEs. These members said complexity and resource constraints could impair the reliability of information SMEs provide in financial statements.
   c) two EEG members said financial assets held by SMEs that are not trade receivables or contact assets are often related party loans and SMEs should not be subject to an expected credit loss model for a related party transaction.

12. Two other EEG members disagreed with the proposal. In their view the IASB should retain the incurred loss model for all financial instruments because the expected credit loss model is complex and because users of SMEs' financial statements do not require the information made available from applying the expected credit loss model.

13. Regarding the IASB's proposal to simplify the measurement for issued financial guarantee contracts:
    a) two EEG members noted that issued financial guarantee contracts are common among SMEs in their jurisdiction; and
    b) one EEG member questioned whether requiring SMEs to measure issued financial guarantee contracts at each financial reporting date would be consistent with the IASB's principle of avoiding imposing undue cost or effort on SMEs.

Business combinations

14. Two EEG members agreed with the IASB's proposal to introduce requirements for step acquisitions in the *IFRS for SMEs* Accounting Standard.

15. One EEG member agreed with the IASB's decision not to permit the option to measure non-controlling interests at fair value due to the complexity and costs involved in measuring non-controlling interests at fair value. In contrast, two EEG members said SMEs should be given the option as to whether to measure non-controlling interests at fair value.

The consolidation package (IFRS 10 **Consolidated Financial Statements***, IFRS 11* **Joint Arrangements** *and IFRS 12* **Disclosure of Interests in Other Entities***)*

16. One EEG member said that retaining three classifications of joint arrangements in the *IFRS for SMEs* Accounting Standard adds complexity to the Standard. The EEG member said aligning the Standard with the classification requirements in IFRS 11 would be simpler for SMEs.

Revenue

17. EEG members discussed the IASB's proposal to replace the term 'performance obligation' with 'promise'. Three EEG members said:
    a) deviating from the term used in IFRS 15 *Revenue from Contracts with Customers* would introduce confusion especially if the intended meaning of these terms is the same;
    b) 'promise' could be interpreted differently if translated to other languages; and
    c) the IASB should consider and provide solutions for the unintended consequences that could arise from using 'promise' instead of 'performance obligation'.

18. One EEG member noted that the IASB's proposed simplification of the requirements for principal versus agent would result in the omission of some useful guidance available in IFRS 15.

19. One EEG member suggested the IASB consider feedback from the post-implementation review of IFRS 15 when finalising the Standard.

Other topics on which the IASB is seeking feedback

Deleting paragraph 28.19 of the Standard

20. Two EEG members disagreed with the IASB's proposal to delete paragraph 28.19 which provides optional simplifications for the measurement of defined benefit obligations. The EEG member explained that the simplification is widely applied in their jurisdiction for defined benefit plans that are required by legislation to be provided to employees. The EEG member said removing the measurement simplification set out in paragraph 28.19 would result in SMEs incurring higher actuarial costs in accounting for their employees' benefits.

21. One EEG member suggested the IASB simplifies the measurement for end of service benefits that are a lump sum paid on leaving service; which is the nature of benefits in many jurisdictions. The member suggested the measurement be simplified by ignoring salary increases, future services and the effect of discounting. In this member's view ignoring both salary increases and the effect of discounting results in an amount that faithfully represent the obligation that is payable at the end of each reporting period. This EEG member noted deferred income tax liabilities are required to be classified as non-current liabilities and are not discounted.

22. In contrast, one EEG member said that SMEs in their jurisdiction rarely offer employees with defined benefit pensions.

Not aligning with IFRS 16 Leases

23. Two EEG members supported the IASB's proposal not to align the *IFRS for SMEs* Accounting Standard with IFRS 16 *Leases* as part of this review. One of the EEG members said it would be inappropriate to align the Standard with IFRS 16 because the post-implementation review of IFRS 16 is yet to take place—feedback from the post-implementation review would help the IASB in simplifying lease accounting for SMEs.

24. In contrast, one EEG member disagreed with the IASB's proposal because a failure to align the requirements would delay providing the benefit of the lease accounting requirements in IFRS 16 to users of SMEs' financial statements. Similarly, another EEG member suggested the IASB explore a middle ground between full alignment and not-aligning with IFRS 16. This EEG member said information made available when applying IFRS 16 would also be useful to users of SMEs' financial statements who were evaluating the relationship between liabilities and equity.

Recognition and measurement of development costs

25. Four EEG members agreed the IASB should explore an accounting policy option that would permit an SME to apply the Standard to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38.

26. Two EEG members said SMEs should be required to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38 (unless such assessment results in undue cost or effort).

27. One EEG member said it might be beneficial for the IASB to complete its review of IAS 38 before amending the recognition and measurement of development costs in the *IFRS for SMEs* Accounting Standard.

Turkey's experience with hyperinflation

28. EEG members discussed economic developments in Turkey that led to the application of IAS 29 *Financial Reporting in Hyperinflationary Economies* and the main challenges encountered in the transition to using the Accounting Standard. Elâ Kaya, representing Turkey's Public Oversight, Accounting and Auditing Standards Authority (POA), presented the topic.

29. Ms. Kaya noted that:

    a) Turkey has experienced a rapid increase in prices over the last two years, leading to the application of IAS 29. By the end of April 2022, three-year cumulative inflation in Turkey exceeded 100%.

    b) the POA held meetings with audit firms, regulators, and entities to discuss the application of IAS 29. Participants in these meetings said entities would find it difficult to apply IAS 29 because entities would need to update accounting information systems and train staff on IAS 29.

    c) to support entities, the POA:
        (i) prepared guidance;
        (ii) organised training sessions; and
        (iii) organised panel discussions to raise awareness and provide educational support.

    d) the POA said it would be beneficial to have guidance on areas of IAS 29 that were difficult to apply, including:
        (i) inflation-indexed lease liabilities and right-of-use assets;
        (ii) other comprehensive income and equity items;
        (iii) borrowing costs and their presentation in profit and loss;
        (iv) restatements of reserves and their presentation; and
        (v) monetary items linked, by agreement, to changes in prices.

30. Three EEG members shared their jurisdictions' experience regarding the application of IAS 29. Two EEG members said they had observed similar issues as those the POA experienced in applying IAS 29, and that they are willing to share information with Turkey.

31. One EEG member emphasised that parent entities receiving information from a subsidiary operating in a hyperinflationary economy are also affected by that hyperinflation.

32. One IASB member acknowledged that other jurisdictions have experienced similar issues in applying IAS 29 and supported communication and assistance between jurisdictions, noting that this would be beneficial in solving the application problems associated with IAS 29.

Mexican accounting standard on cryptocurrencies

33. EEG members discussed the Mexican accounting standard on cryptocurrencies. Elsa Beatriz García Bojorges and William A. Biese Decker, representing the Mexican Financial Reporting Standards Board (MFRSB), presented the topic.

34. The Mexican accounting standard was developed in response to a Mexican regulation that permits financial technology companies and banks to use authorised cryptocurrencies as a means of payment.

35. For the purposes of the Mexican accounting standard, the MFRSB decided that:
    a) a cryptocurrency is a new type of asset—in reaching this decision, the nature of assets in IFRS Accounting Standards was evaluated;
    b) to be recognised, the asset must possess the characteristics of an asset as defined in the 2018 *Conceptual Framework for Financial Reporting*;
    c) the asset is measured at fair value through profit and loss;
    d) if there is no active market for the cryptocurrency, the fair value of that cryptocurrency is zero; and
    e) accounts receivable and payable denominated in a cryptocurrency would also be required to be measured at fair value—if there is no active market for the cryptocurrency a receivable is measured at zero and payable at an estimated amount of the resources required to settle the liability.

36. EEG members thanked the MFRSB for the presentation and asked:
    a) where there is no active market could cost be an alternative to measuring a receivable as zero. The MFRSB noted that measuring at cost had been considered in developing the Mexican accounting standard, but the view was that without an active market the receivable could not be exchanged, hence the value of the receivable would be zero.
    b) whether cryptoassets were classified based on the business model, that is, based on the purpose for which the asset is being held. They noted that the Mexican accounting standard addressed this point.

37. The IASB members attending the meeting:
    a) reminded participants that the IFRS Interpretations Committee published an agenda decision in June 2019 on *Holdings of Cryptocurrencies*. That agenda decision set how to apply IFRS Accounting Standards to holdings of cryptocurrencies.
    b) discussed the reasons why the IASB decided against adding a project on cryptocurrencies and related transactions to its work plan. In doing so they noted that although the IASB is not actively working on a project on this topic it is monitoring developments in this area.

Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

38. EEG members discussed their overall assessments of IFRS 15 *Revenue from Contracts with Customers* and their views on:
    a) the application matters on which EEG members suggest the IASB seeks feedback during the post-implementation review of IFRS 15;
    b) the transition to IFRS 15; and
    c) the benefits and costs (effects) of implementing and applying the Standard.

Overall assessment

39. The EEG members who spoke said that in their jurisdictions, the feedback about IFRS 15 was positive—stakeholders said IFRS 15 had achieved the IASB's objective and that the five-step revenue recognition model was helpful, despite the implementation challenges faced by some industries. One member reported that applying IFRS 15 has helped improve disclosures on revenue. Two members said their local revenue standards are based on and aligned with the requirements in IFRS 15. One jurisdiction adopted the five-step model in their local standards.

Application matters

40. Members reported various application matters related to IFRS 15, including:
    a) assessing whether a transaction is within the scope of IFRS 15 or another Accounting Standard such as IFRS 2 *Share-based Payment*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* or IFRS 11 *Joint Arrangements*.
    b) identifying whether an entity is a principal or an agent in complex arrangements, particularly in industries using digital platforms and in financial services companies.
    c) identifying performance obligations, particularly if a bundle of goods or services being sold to a customer includes free goods or services, for example in off-plan property sales.
    d) determining the timing of revenue recognition, particularly in industries such as construction and engineering, and software development. One member said it was difficult to apply the criteria for revenue recognition over time (set out in paragraph 35(b)–(c) of IFRS 15). That member also said considering local legislation when assessing whether an entity has an enforceable right to payment for performance completed to date may lead to different conclusions in different jurisdictions.

41. One member recommended that the IASB include in the Illustrative Examples accompanying IFRS 15 specific examples related to principal–agent analysis for companies that use digital platforms (platform companies).

Transition

42. Members commenting said that many industries found the transition to IFRS 15 challenging, particularly those with complex or diverse contracts or those with many customers. Examples of the most affected industries included the telecommunications, automobile and spare parts, energy, software development, engineering and construction, pharmaceuticals, retail and consumer products, and real estate industries.

Benefits and cost (effects)

43. One member commented that, generally, the effects of implementing and applying IFRS 15 were those expected by the IASB. The member reported that additional benefits of implementing the Standard included stronger contract management and internal controls and integrated accounting and contract management processes. The member also said that, in some cases, implementation costs were greater than expected, for example, in identifying performance obligations related to some of the goods or services that are insignificant in the context of the Accounting Standard and in estimating variable consideration.

44. Members commented on convergence between IFRS 15 and US GAAP. They:
    a) said convergence with US GAAP is important because it has improved the comparability of revenue information between different capital markets; and
    b) asked whether adopters of IFRS Accounting Standards could apply more specific guidance from US GAAP, for example, the guidance on accounting for discount promotions in platform companies.

Business Combinations under Common Control

45. IFRS Foundation staff:
    a) provided an update on the Business Combinations under Common Control (BCUCC) project; and
    b) asked for EEG members' views on particular aspects of the staff's analysis on selecting the measurement method(s) to apply to BCUCCs.

46. The staff provided an update and an overview of the staff's initial views on:
    a) the principle of selecting which measurement method a receiving entity would apply to BCUCCs; and
    b) whether in some circumstances a receiving entity would be permitted or required to deviate from the principle and apply a different measurement method (referred to collectively as 'exceptions' but including circumstances in which a different method should be required, permitted, or prohibited.

The principle of selecting the measurement method

47. One EEG member said a book-value method should apply to all BCUCCs because:
    a) the substance of BCUCCs differs from that of business combinations in the scope of IFRS 3 *Business Combinations*;
    b) non-controlling shareholders prefer the information provided by a book-value method; and
    c) the acquisition method is costly to apply and involves judgement in purchase price allocation and accounting for goodwill.

48. Another EEG member said providing fair value information for a BCUCC contradicts the concept that a group is a single reporting entity.

Option to apply the acquisition method to BCUCCs that do not affect non-controlling shareholders

49. One EEG member said a receiving entity should not have an option to apply the acquisition method to BCUCCs that do not affect non-controlling shareholders because:
    a) in substance, such a BCUCC is a resource allocation within the group—applying the acquisition method does not reflect resource allocation within a group;
    b) an option could create structuring opportunities;
    c) an option would reduce comparability between such BCUCCs; and
    d) due to costs, preparers would choose not to apply the acquisition method.

Other comments

50. Two EEG members suggested clarifying the meaning of a BCUCC that 'affects' non-controlling shareholders.

Exceptions of the principle of selecting the measurement method

51. During the discussion:
    a) two EEG members suggested providing guidance for an entity to consider in assessing whether non-controlling shareholders are insignificant.
    b) one EEG member said that if the receiving entity is controlled by a government (or by a government-controlled entity) it should be exempt from applying the acquisition method.
    c) one EEG member suggested differentiating between BCUCCs undertaken for commercial or non-commercial purposes in the context of the government-related entities exception.
    d) one EEG member said the publicly-traded shares criterion should apply only to entities with shares that are currently traded in the public market and should not apply to entities preparing to issue shares in a public market.
    e) one EEG member said exceptions and exemptions should also apply to entities with publicly-traded shares—whether an entity has publicly-traded shares should not affect the measurement method. Another EEG member said the publicly-traded-shares criterion would result in different accounting outcomes for entities with publicly-traded shares and entities with only privately held shares and asked how this criterion would interact with the IASB's project, Disclosure Initiative—*Subsidiaries without Public Accountability: Disclosures.*

Update on the IASB and IFRS Interpretations Committee activities

52. Tadeu Cendon, IASB member, updated EEG members on the activities of the IASB and the IFRS Interpretations Committee, He focused on the IASB's recent decision to publish an exposure draft of amendments to IAS 12 *Income Taxes* to respond to global tax reforms.

Next meeting

53. The 25th EEG meeting will be held in the first half of 2023, and its format will be agreed in early 2023 after further discussion among EEG members.