Report of the Emerging Economies Group Meeting

30 November—1 December 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 provides a summary of the 20th EEG meeting, held via remote participation, on 30 November–1 December 2020.

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

20th EEG meeting agenda

Agenda topics included:

- Disclosure Initiative—Accounting Policies;
- Disclosure Initiative—Subsidiaries that are SMEs;
- Disclosure Initiative—Targeted Standards-level Review of Disclosures;
- Applying IFRS Standards in 2020—Discussion on impact of covid-19;
- Lack of Exchangeability—Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*;
- Business Combinations—Disclosures, Goodwill and Impairment;
- Update on IASB Activities; and
- Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

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.

Disclosure Initiative—Accounting Policies

The aim of this session was for EEG members to discuss the forthcoming amendments relating to disclosure of accounting policies to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

Siobhan Hammond, technical staff, provided an overview of the forthcoming amendments.

'Significant' and 'material'

Some EEG members said 'significant' and 'material' are interchangeable words in their language and often a single term is used in translation for both words.

A few EEG members commented that consequently, the amendments could cause confusion for non-English speakers. These EEG members suggested that:

(a) the Basis of Conclusions on the forthcoming amendments to IAS 1 clarifies why the term 'significant' is being replaced by the term 'material' in the context of accounting policy disclosures; and

(b) more broadly, the Board considers a project looking at all other uses of the term 'significant' in IFRS Standards to explain the difference, if any, between 'significant' and 'material'.

Disclosing material accounting policy information

Those EEG members who supported the forthcoming amendments to IAS 1 and IFRS Practice Statement 2 said that the amendments will be beneficial and help:

(a) address the problem of 'disclosure overload'; and

(b) improve the quality of accounting policy disclosures by helping entities remove immaterial accounting policy information that obscures disclosures.

Disclosure Initiative—Subsidiaries that are SMEs

The aim of the session was to provide EEG members with an update on the Disclosure Initiative—*Subsidiaries that are SMEs* project. The Board is aiming to develop an IFRS Standard (reduced-disclosure IFRS Standard) that permits subsidiaries that are SMEs to apply IFRS Standards with reduced disclosures.

Elizabeth Buckley, technical staff, provided a project update.

EEG members' comments included:

(a) support for the project, stating that subsidiaries should apply the same recognition and measurement requirements as their parent. These members supported reducing the cost of disclosures to subsidiaries within the scope of the project because such subsidiaries are SMEs and the Board's tentative decision is for the Standard to be voluntary. A member thought subsidiaries would welcome this decision. If the project is urgent the member recommended that the Board publish an exposure draft, not a discussion paper, and focus resources on other projects.

(b) support for the Standard being voluntary. EEG members asked for confirmation that it would not affect the assertion of compliance with IFRS Standards if a jurisdiction chose not to permit the Standard to be applied. Elizabeth Buckley reported that the Board has tentatively decided the Standard should be voluntary and it was not expected to affect the assertion of compliance with IFRS Standards.

(c) SMEs in a member's jurisdiction can apply local GAAP, which has simpler recognition and measurement requirements compared to IFRS Standards. The member said some entities may choose to apply the reduced-disclosure IFRS Standard but the regulatory body may prohibit application of the Standard because some disclosures may not be required when applying the reduced-disclosure IFRS Standard.

(d) a concern if there could be a loss of information if the parent is a holding company and the group's operations are undertaken at subsidiary level. Elizabeth Buckley stated that the relief will be at the subsidiary level, so full disclosures would be required in the ultimate parent's consolidated financial statements.

(e) the possibility of a link/overlap of this project with the Second Comprehensive Review of the *IFRS for SMEs* Standard. EEG members questioned whether the Board could: (i) consolidate its efforts; and (ii) develop an IFRS Standard for smaller SMEs (because it appeared the Board was concentrating on larger SMEs). Michelle Sansom, technical staff, provided a brief update on the Second Comprehensive Review of the *IFRS for SMEs* Standard, noting that the comment period for the Request for Information had only recently closed and that the Board had not made any decisions.

(f) it is difficult to manage two reporting frameworks: IFRS Standards and the *IFRS for SMEs* Standard. The reduced-disclosure project could be creating a third tier which would add further costs, such as costs to the national standard-setter of translating the Standard and costs to auditors and universities in teaching about the different financial reporting frameworks. Elizabeth Buckley, explained that the project was not creating three tiers. The project is aiming to provide relief to subsidiaries required to apply IFRS Standards when reporting to their parent but enabling these subsidiaries to apply IFRS Standards with reduced disclosures in preparing their own financial statements.

Disclosure Initiative—Targeted Standards-level Review of Disclosures

The aim of this session was for EEG members to discuss their initial views on the Board's forthcoming Exposure Draft, which the Board expects to publish in March 2021.

Kathryn Donkersley, technical staff, provided an overview of the forthcoming proposals.

Some EEG members said they generally agree with the Board's proposed approach to developing disclosure requirements in IFRS Standards. These EEG members:

(a) supported the Board taking steps to (i) discourage companies from applying disclosure requirements like a checklist; and (ii) encourage them to focus disclosure on relevant information.

(b) agreed that disclosures should focus on relevant information. One member noted that sophisticated users only want to see relevant information in the notes and there is a high level of disclosure fatigue. This member added that the Board needs a clear plan to address excessive disclosure in financial statements.

(c) observed that the proposals would be costly for companies to implement but would improve the quality of disclosure information.

Other EEG member comments included:

(a) in practice, people will have different views on what is material and therefore immaterial information may not always be eliminated applying the proposals.

(b) companies should not be required to disclose predictive information which may be inaccurate and difficult to audit.

(c) financial statements contain sophisticated information and readers may need more than a reasonable knowledge of accounting to fully understand that information. It would be helpful for users to understand how disclosed information has been prepared.

(d) users would like to see a time series analysis of disclosures to understand what information is new.

(e) in some jurisdictions, a table of contents is rarely given at the start of the notes and would be useful.

One EEG member asked whether the Board would review the disclosure requirements of any other IFRS Standards. Kathryn Donkersley explained that the Board would review feedback received on the forthcoming Exposure Draft before deciding on next steps.

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

The aim of this session was to provide EEG members with an update on the response taken by the Board to the covid-19 crisis and enable EEG members to share experiences arising from the covid-19 pandemic.

Mary Tokar, Board member, provided:

(a) an overview of the activities the Board is undertaking to respond to the covid-19 crisis; and

(b) feedback from IFRS Foundation Virtual Conference on applying IFRS Standards in 2020.

EEG members were appreciative of the Board's actions in responding to the covid-19 crisis. Many EEG members noted their organisations have developed educational materials to respond to application issues because of covid-19.

Some EEG members shared a concern on the basis for preparing financial statements when an entity is no longer a going concern. A few members suggested that the Board take urgent action to provide guidance on this matter. Mary Tokar responded that the Board is unlikely to add a project on going concern before completion of the 2022-2026 Agenda Consultation. However, she reminded EEG members that a project on going concern could be added if the Board receives demand on such a project in response to the Agenda Consultation Request for Information.

Mary Tokar said it would be helpful if EEG members could add potential solutions on the going concern issue in responding to the Agenda Consultation Request for Information.

One EEG member asked why the Board had not publish guidance on categorising covid-19 related costs in the statement of financial performance, that is, whether the cost should be categorised as costs of sales or operating costs. Mary Tokar replied this issue had been discussed in various regional and national standard-setters meetings, the feedback was that it is difficult to develop single global guidance on categorising covid-19 related costs.

One member mentioned an application issue on if an entity would need to consolidate an entity if protective rights had been enacted. Michelle Sansom, technical staff, replied that this issue could be included in a response to the Request for Information on the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, which is due to be published in December 2020.

Lack of Exchangeability—Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The objective of the session was to update EEG members on the project and to introduce the forthcoming Exposure Draft of proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Paolo Dragone, technical staff, provided an overview of the project, explaining the background and rationale for the proposed amendments.

EEG members asked a few questions to clarify their understanding of the proposed amendments including the meaning of particular terms (for example, observable, insignificant), and whether an entity would be required to consider all the applicable factors together in assessing whether a currency is, or is not, exchangeable.

Business Combinations—Disclosures, Goodwill and Impairment

The objective of this session was for EEG members to discuss the feedback from their jurisdiction on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.

Craig Smith, technical staff, provided an overview of the Discussion Paper and the feedback the staff have received to date.

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*.

EEG members commented that:

(a) users broadly welcomed the disclosures—both at the time of acquisition and on subsequent performance of the acquisition.

(b) other stakeholders, especially preparers and auditors, have concerns about the practical ability to provide the information.

(c) the use of the Chief Operating Decision Maker (CODM), from IFRS 8 *Operating Segments*: may not be appropriate given some stakeholders hold the view there is diversity in practice in identifying the CODM.

(d) some stakeholders are concerned that the Board's preliminary views will require large volumes of disclosure.

(e) the period of time proposed by the Board in which management would be required to explain why they stopped monitoring an acquisition is too short—some stakeholders have suggested that three, four or five subsequent annual periods would be more appropriate than the Board's preliminary view of two annual periods.

(f) some stakeholders say information on the subsequent performance of acquisitions should not be disclosed in financial statements—some stakeholders identified non-financial information, which require different level of audit assurance, should be disclosed outside financial statements.

(g) disclosing information about material expected synergies might expose entities to litigation or regulatory risk, if those expected synergies are not subsequently obtained. Some clarification was sought on the Board's distinction between targets and forward-looking information.

Improving the accounting for goodwill

EEG members reported mixed views as to whether the Board should reintroduce amortisation of goodwill. Some EEG members said that the majority view in their jurisdiction is to retain the impairment-only approach for goodwill whereas other EEG members said most stakeholders in their jurisdiction preferred the reintroduction of amortisation.

Some EEG members said there are no new arguments to support this view—although one EEG member noted that older goodwill, for example goodwill that is 10 years old, provides less information about the acquisition that led to its recognition and therefore amortisation to reduce those older balances might be appropriate.

Some EEG members said they are considering what goodwill is in order to consider how it should be accounted for.

EEG members expressed concerns about removing the requirement to perform a quantitative impairment test annually. EEG members said this does not help to address the 'too little, too late' problem identified in the Post-implementation Review of IFRS 3.

One EEG member said stakeholders in its jurisdiction generally agreed with allowing the use of post-tax cash flows and post-tax discount rates to be used in estimating value-in-use. However, there are mixed views on whether to allow entities to include cash flows from uncommitted future restructurings, improvements or enhancements in cash flow estimates.

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.

Update on IASB Activities

The aim of this session was to update the EEG members on the Board's and the IFRS Interpretations Committee's activities.

Jianqiao Lu, Board member, provided the update.

One EEG member:

(a) suggested extending the comment letter period for the Exposure Draft *Rate-regulated Activities* because many jurisdictions do not have experience with accounting standards for rate-regulated activities. Jianqiao Lu commented that extending the comment letter period would not address stakeholders' demand for a timely resolution to the accounting for rate-regulated activities.

(b) asked if application of sustainability standards would be mandatory to claim compliance with IFRS Standards. Jianqiao Lu replied that it is too early in the process to consider this matter. The IFRS Foundation Trustees need to consider the feedback from their consultation before any decisions can be made.

EEG members also discussed agenda decisions:

(a) some members stressed the importance of agenda decisions to support consistent application.

(b) a member said stakeholders find agenda decisions useful when they encounter application questions when applying IFRS Standards. Another member noted the need for balance as too many agenda decisions may undermine the principle-based nature of IFRS Standards.

(c) another member said his jurisdiction is planning to translate agenda decisions into the local language, but the translation process can slow the process of adoption, noting that agenda decisions are expected to be implemented on a timely basis.

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

The aim of this session was to provide an overview of the matters examined in the forthcoming Request for Information on the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, which is due to be published in December 2020.

Filippo Poli, technical staff, provided an overview of matters examined in the forthcoming Request for Information.

EEG members' comments included:

(a) agreement with the Board examining challenges in assessing whether rights given to minority shareholders are protective, as the matter arose in the member's jurisdiction.

(b) real estate development arrangements between a landowner and a property developer may be examples of collaborative arrangements outside the scope of IFRS 11, which are being examined further in the Request for Information. Such arrangements are treated as a disposal by the landowner and a land acquisition by the property developer when the agreement becomes unconditional.

(c) there are examples of credit analysts adjusting financial statements prepared applying IFRS Standards to reflect joint ventures on the basis of proportionate consolidation rather than the equity method as required by IFRS 11.

(d) it may be helpful to require disclosure of interest-bearing liabilities of individually material associates and joint ventures, rather than current and non-current liabilities. Aggregate information of individually non-material investees may not be helpful.

(e) a member presented some application issues related to IFRS 10: (i) assessing whether rights are protective, or whether rights are protective when they are contingent on future events; and (ii) control without a majority of voting rights is a common issue and not all entities reach the same conclusions. Conflicts may arise between succeeding and previous auditor, and they are likely to become more common due to the introduction of mandatory rotation of the auditors.

A member presented a paper on an issue relating to the accounting for acquisition of an additional stake in a joint venture without a change in joint control.

Next meeting

The next EEG meeting will be held in May 2021. EEG members preliminarily agreed to hold the meeting by video conference.