IFRS

STAFF PAPER

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Emerging Economies Group

Project	2020 Agenda Consultation		
Paper topic	Suggestions received for potential future projects		
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This paper has been prepared for discussion at a public meeting of the Emerging Economies Group. The views expressed in this paper do not represent the views of the International Accounting Standards Board (Board) or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Introduction

1. In agenda paper 7, circulated to EEG members in October, we set out the Board's approach to the 2020 Agenda Consultation. That consultation will include a Request for Information (RFI) which will be published in September 2020. The RFI will include a description of potential projects for the Board's future work plan for comment by stakeholders.

2. The objective of this session is for EEG members to help us identify and develop a description of those potential projects. We are not seeking a consensus view from the group.

3. In Appendix A to this paper we have noted the topics suggested by members or the staff of members' organisations for discussion today. Where EEG members have provided suggested solutions or an indication of size we have included this information.

4. We have not prepared any assessment or added an analysis of the topics suggested; this is a fact-finding session with the aim of letting members describe projects in their own words. We have, however, tried to categorise the topics suggested by theme to give structure to the discussions.

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Proposed approach to the discussions

5. We suggest the following agenda for the discussions:

   (a) Discussion of suggestions for potential new topics to add to the work plan described in the appendix–including members reactions to topics; and

   (b) Discussion of the financial reporting environment and other comments received, such as overall balance of the Board’s activities and comments on the agenda consultation process.

Appendix A Suggested topics

This appendix consists of:

a) potential new topics to add to the work plan–for discussion (pages 3–8);

b) suggestions relating to existing or planned projects (pages 8–9);

c) suggestions relating to projects nearing completion (page 9);

d) considerations for planned post-implementation reviews (page 10).

Where possible, we have retained the wording used by EEG members to describe each of the issues.

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
POTENTIAL NEW TOPICS TO ADD TO THE WORK PLAN – for discussion		
1. Assets acquired for free		
Current IFRS Standards do not provide specific requirements on the measurement of assets required for free. (Is the amount recognized on initial recognition 0 or fair value?) Also, there does not exist any specific requirement on how to present the asset provided by shareholders for free in the corresponding account (profit or loss or capital surplus) when that asset is measured at fair value. Therefore, entities are likely to develop their own accounting policy for such transactions according to IAS 8. This may cause diversity in practice. Such transactions frequently occur in practice, and the amount of money involved is often significant. Thus, the diversity in practice may undermine comparability between entities. Stakeholders affected: Investors of entities, lenders and other creditors	Amend IFRS Standards to provide clear guidance on the measurement of assets acquired for free and the presentation of assets that are provided by shareholders for free.	Small
2. Borrowing costs		
At present, IAS 23 seems easiest to understand in the context of a stand-alone item of PP&E being constructed with funds borrowed specifically for the PP&E. However, IAS 23 is more difficult to understanding in its application when borrowings are less specifically associated with particular assets and particularly to inventories that are	Review of IAS 23	

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
qualifying assets. The definition of borrowing costs also seems quite dated. Most new IFRS over the last decade have introduced new classes of finance charges; in particular, IFRS 16 and IFRS 17. It is not entirely clear how the 'borrowing costs' definition relates to some of these finance charges. In addition, even though IAS 23 has been in operation for more than a decade after its last revision in March 2007 the IFRS Interpretations Committee (IFRIC) still received fundamental questions on IAS 23 itself, for e.g. • Expenditure on a qualifying asset • Borrowing costs on land • Meaning of general borrowings And much of the feedback on the IFRIC Tentative Agenda Decision *Over Time Transfer of Constructed Good* (IAS 23 *Borrowing Costs*) also sought the matter to be referred to the Board. In addition, the wording in IAS 23 appears to have 'created' some confusion as observed from the responses to that IFRIC Tentative Agenda Decision with some parties having a different understanding of the Standard, specifically paragraph 5[1] of IAS 23 relating to the phrase '… an asset that necessarily takes a substantial period of time to get ready for its intended use or sale …" We note the IASB considered issues connected with possibly aligning the borrowing costs requirements in the *IFRS for SMEs* Standard with IAS 23 at its September 2019 meeting (Agenda paper 30D). We consider that any review of IAS 23 should also aim to simplify the capitalisation requirements to the extent feasible, which might provide the IASB with greater opportunity to align the recognition and measurement requirements of the *IFRS for SMEs* Standard with those in IAS 23. We appreciate that the IASB chose to require all borrowing costs to be expensed as incurred under the *IFRS for SMEs* Standard on the basis that this is regarded as simpler accounting than requiring capitalisation under the criteria in the existing IAS 23. However, aligning the recognition and measurement (capitalisation) requirements has the potential to significantly assist preparers and users of financial statements of entities that are subsidiaries which apply the *IFRS for SMEs* Standard and have a parent entity that applies 'full' IFRS. We consider that borrowing costs are reasonably common among SMEs and would generally be more prevalent and material than, for example, development costs that would meet the capitalisation criteria in IAS 38 *Intangible Assets*. Consequently, it may be more important to align the recognition and measurement requirements of the *IFRS for SMEs* Standard with those in IAS 23 than IAS 38.		
3. Crypto assets		
While the Interpretations Committee's Agenda Decision of June 2019 addressed the accounting for cryptocurrency holders, it is doubtful whether the current IAS 38 faithfully reflects the economic substance of cryptocurrency and provides relevant information. Also, in a case where cryptocurrencies are mined (Initial Coin Offering, ICO), the holder's and the issuer's accounting for the transaction is unclear.	Short term: Amend the definition of intangible in IAS 38 so that only intangibles of business use may be included in the application scope; and allow the	Short term: Small

<table>
<tr><th>Problem definition, why important and stakeholders affected</th><th>Potential solutions</th><th>Size of projects</th></tr>
<tr><td>A variety of cryptocurrencies continue to appear and the trade volume is increasing. With its extremely high volatility in value, cryptocurrencies are recognized in the market as an investment just like financial instruments. Thus, if cryptocurrencies are accounted for in accordance with the intangibles standard following the IFRS Interpretations Committee's decision, the accounting transparency of the cryptocurrency intermediary may be doubted.

Stakeholders affected: Cryptocurrency intermediaries, regulators and supervisory bodies, entities trading cryptocurrencies and the investors using the financial information of such entities.</td><td>entity to develop its own accounting policy to account for investment purpose intangibles such as cryptocurrencies.
Long term:
Develop a separate IFRS standard to address investment purpose intangibles such as cryptocurrencies.</td><td>Long term: Large</td></tr>
<tr><td colspan="3">4. Foreign currency translation</td></tr>
<tr><td>IAS 21 and related parts of IAS 23 and IFRS 9 do not contain sufficient guidance to be able to address issues resulting from frequent volatility in financial markets of emerging economy countries including devaluation of local currency. Examples of topical issues related to application of the above standards in Russia are:
• Accounting for foreign exchange differences on borrowings denominated in foreign currencies.
• Accounting for embedded derivative resulting from fixing or capping of a foreign currency exchange rate in the agreement (issued currency option).

<u>Why issue is important</u>
Foreign currency exchange differences: the issues have a pervasive impact on Russian entities due to historically significant borrowings in hard currencies. There is no specific guidance in IFRS on how to treat exchange movements when capitalising borrowing costs. For example, the issue on the accounting of foreign exchange differences on borrowings might become even more relevant in case of an appreciation of soft currencies against the hard ones (which has been the case recently with the Russian Rouble against the USD and EUR). The question arises whether to consider the resulting gain as an adjustment to interest rate and what is the most appropriate method for foreign exchange gains and losses capitalisation - discrete or cumulative basis, including if it is more appropriate for this purpose to consider interim periods as part of annual reporting or discrete reporting periods.
Accounting for embedded derivatives: many contracts in Russia have historically been concluded in hard currencies (primarily in USD), however, due to the high volatility of the USD in recent years, the parties tended to set collars for the currency exchange rates in the contracts. There is a diversity in practice of accounting of the resulting embedded derivatives.

<u>Stakeholders affected</u>
Foreign currency exchange differences: wide range of large and medium-sized entities, various industries that are constructing assets (have qualifying assets).
Accounting for embedded derivatives: this issue is topical for companies with hard currency leases (in terms of the volatility of the national currency against hard foreign currencies).</td><td>Guidance is needed for:
- calculating the adjustment to the interest rate on borrowings for the purpose of capitalisation of foreign exchange gains and losses into the cost of qualifying assets.
- Accounting for embedded derivative resulting from fixing or capping of a foreign currency exchange rate in the agreement.</td><td>Small (amendments to IAS 23, IFRS 9)</td></tr>
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<tr><td colspan="3">5. Going concern</td></tr>
<tr><td>IFRS Standards currently do not contain guidance on preparation of financial statement on a non-going concern basis.

<u>Why issue is important</u>
In the light of the ongoing development of financial markets and restructuring of businesses in Russia, this issue continues to be relevant. It might not be pervasive, but where the issue comes up, there is a lack of any guidance.

<u>Stakeholders affected</u>
Small to medium-size companies preparing financial statements on a non-going concern basis (in particular, in case of a company's liquidation or where material uncertainty exists regarding the ability to continue as a going concern).</td><td>Guidance in IAS 1 needs to be clarified with respect of matters arising for a non-going concern basis of preparation of financial statements (eg classification of assets and liabilities as current because they will not be realised/settled in the normal course of business as well as issues related to measurement of those assets and liabilities).</td><td>Small/medium (eg amendments to IAS 1)</td></tr>
<tr><td colspan="3">6. Government grants</td></tr>
<tr><td>IAS 20 includes a number of recognition and measurement requirements that are inconsistent with several other key IASB pronouncements, including: the Conceptual Framework for Financial Reporting and IFRS 15 Revenue Recognition from Contracts with Customers.
Since its issue in 1983, IAS 20 has been changed substantively in respect of requiring government loans with below-market rates of interest to be recognised and measured in accordance with IAS 39 Financial Instruments: Recognition and Measurement (now IFRS 9) and the benefit of the reduced interest to be accounted for using IAS 20.

The following underlying concepts of recognition, measurement and presentation in IAS 20 are out-of-step with other IFRS:
Paragraph 7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:
(a) the entity will comply with the conditions attaching to them; and
(b) the grants will be received.
Paragraph 12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.
Paragraph 20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.
Paragraph 24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.
The notion of ‘reasonable assurance’ [IAS 20.7] and matching revenues to expenses [IAS 20.12] does not appear in the Conceptual Framework. Depending on the circumstances, it may or may not have something in common</td><td>Revision</td><td></td></tr>
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Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
with recognising revenue as performance obligations are satisfied [IFRS 15.31]. The open choice to either present assets on a net or gross basis [IAS 20.24] is inconsistent with other IFRS, in particular IAS 16 *Property, Plant and Equipment*. There is currently an emphasis on 'gross' forms of presentation and disclosure. When substantive revision to IAS 20 has been raised previously as a possible agenda topic, IASB has generally not considered it worth a substantial commitment of the Board's time, possibly based on the view that IAS 20 is not be a widely-used standard in a broad range of jurisdictions. However, periodically, and in particular jurisdictions, government grants to businesses can be important transactions for users to understand. In addition, some not-for-profit entities that rely on government grants apply IFRS or standards based on IFRS.		
7. Intangible assets		
IAS 38 is an old standard with a conservative approach to asset recognition and measurements. Yet intangibles have a growing significance in most businesses. Therefore, users are probably obtaining their information on intangible assets from sources other than IFRS-compliant financial statements. That may be fine; however, it would be useful to research where users are getting that information from and the types of information about intangible assets they find most helpful. Given the struggle standard setters have had in developing requirements on intangible assets that are more progressive than the current standards, instead of a fundamental revision of IAS 38, it may be possible to identify key disclosures that could facilitate users' use of information on intangible assets that is sourced outside financial statements. This is particularly the case since the information in the financial statements has credibility through the audit process, which may be lacking in users' other sources of information.	Research and possible selected additional disclosures	
8. Owners acting in their capacity as owners		
There is an issue of accounting for the effects of capital transactions with owners acting as such, in particular where there is a disconnect between an explicit requirement in some standards to record effects from those transactions in profit or loss (eg disposals under IFRS 9, IFRS 10) while IAS 1.109 indicates it could be an equity transaction. <u>Why issue is important</u> The issue is not specific for Russia, but historically has been common for Russian entities in various industries. This issue is also very relevant to a big part of the Russian economy - state controlled entities. <u>Stakeholders affected</u> Wide range of entities in Russia, including state-controlled companies.	Guidance in IAS 1 and other relevant standards (eg IFRS 9, IFRS 10) needs to be clarified when it is required to record effects of transactions with owners in equity.	Small (amendments to the existing standards)
9. Separate financial statements		
When a transaction is carried out, or expected to be carried out, between entities within a consolidated group, it has no effect on the consolidated financial statements because it is an internal transaction. However, it leads to diversity in practice because of the lack of a clear principle on whether an accounting treatment consistent with that of consolidated financial statements is needed for the separate financial statements. *(Example) Disposal groups meeting the requirements of held for sale and discontinued operations, BCUCC, asset	Stipulate in IAS 27 that the accounting in the separate financial statements shall be consistent with that of consolidated financial statements when a transaction is carried out, or expected to be carried	Medium

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
transfers under common control, etc. In a country where the separate financial statement becomes the statutory financial statements of the entity by law and IFRS Standards are applied in the preparation of the financial statements (e.g., Korea), a set of principles and guidance that clearly establish the relations between the consolidated financial statements and separate financial statements are needed. Stakeholders affected: Investors of entities, lenders and other creditors, regulators and supervisory bodies, tax authorities, etc.	out, between entities within a consolidated group; and make an overall improvement to IAS 27.	
SUGGESTIONS RELATING TO EXISTING OR PLANNED PROJECTS		
Equity Method		
The existing IAS 28 provides limited guidance on accounting for acquisition of associate or joint venture. Paragraph 26 of IAS 28 states "Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture." We received feedback that such statement is unclear and simplified. As such, it may be subject to different interpretations in application. A subsidiary, in which an entity has unilateral control and an associate or joint venture, in which an entity only has significant influence or joint control, is different and as such, would the 'concepts underlying the procedures' for both be similar. For example, an investor may not be able to obtain the 'fair value' of the net identifiable net assets of the associate at the date of acquisition as it does not have unilateral control over the associate.		
As the purpose of the accounting treatment that adjusts the carrying amount of the investment in an associate in proportion to the change in the associate's net assets (ie the equity method) is unclear, there is a lack of logical consistency between the requirements in the equity method standard, ie measurement basis for the investment in an associate (measurement concept) vs one-line consolidation (consolidation concept). Examples: - Elimination of the unrealized gains or losses from internal transactions between an investor and equity-accounted investees since the investor and the equity-accounted investees are viewed as 'one economic entity' – *Consolidation concept* - Discontinuation of applying the equity method when the carrying amount falls below zero due to the continued losses of the equity-accounted investees – *Measurement concept* It is also vague in the following areas: - The meaning of 'significant influence' (paragraphs 5 and 6 in IAS 28) (Example) Whether an entity should be viewed as having significant influence if the entity holds less than 20% of	The 'Equity Method', a research report issued by the KASB in Oct 2014, introduced a new dimension of 'scope of equity-accounted group' and proposed three different ways to describe the concept of the equity method based on it.	Large

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
the voting power of the investee but there exists a transaction between them that accounts for 30% of the total sales of the investee. - The meaning of 'investment' in an associate (paragraph 10 in IAS 28): Applicability of the equity method (Example) Whether the equity method can be applied to preference shares with voting rights. - The meaning of cost on initial recognition (paragraph 10 of IAS28) Initial acquisition cost vs Fair value when significant influence is acquired - The meaning of the transaction that currently gives the entity access to the returns associated with an ownership interest (paragraph 13 of IAS 28) This issue is important, because many entities are investing in associates or joint ventures and often the amount of the investment is significant. Stakeholders affected: Investors of entities, lenders and other creditors		
SUGGESTIONS RELATING TO PROJECTS NEARING COMPLETION		
Accounting Estimates		
While the accounting treatments for changes in accounting policies and accounting estimates and error corrections are different from each other—and the distinguishment between them thus has a significant impact in practice—it is very difficult to distinguish one from another in practice. In order to address this issue, the IASB issued an ED to amend IAS 8 in Sept 2017, proposing to newly add the definition of accounting estimate. Since then, the IASB had further deliberation based on the result of the public consultation on the ED, and tentatively decided at the Oct 2019 meeting to define accounting estimate as follows: Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty; (a) Such monetary amounts are outputs of measurement techniques used in applying accounting policies; and (b) An entity uses judgements and/or assumptions in developing an accounting estimate. While we welcome the IASB's tentative decision, we are concerned that the lack of additional guidance on what causes measurement uncertainty, which is an important element in the definition of accounting estimate, may lead to limits on effectively applying the definition of accounting estimate in practice. For a change in accounting estimate and a change in accounting policy, the prospective application and retrospective application are applied, respectively. Thus, the accounting treatments starkly differ. Stakeholders affected: Investors of entities, lenders and other creditors.	The KASB presented the result of its research on the definition of accounting estimate at the Oct 2019 ASAF meeting. The research analyses the issue by classifying the causes that bring about measurement uncertainty, i.e., what hinders direct observation of the monetary amounts, into three different categories. (Type 1) Measurement uncertainty due to physical or economic barriers (e.g., volume of oil reserve) (Type 2) Measurement uncertainty due to time barriers (e.g., doubtful debts which can only be directly observed ex-post, not ex-ante) (Type 3) Measurement uncertainty due to its nature (e.g. depreciation)	Medium

Problem definition, why important and stakeholders affected	Potential solutions	Size of projects
CONSIDERATIONS FOR PLANNED POST-IMPLEMENTATION REVIEWS		
IFRS 16		
Diversity in practice occurs due to the unclear guidance on the following matters in IFRS 16 *Leases*. When determining the lessee's incremental borrowing rate, is it required or permitted to reflect the interest rate in a loan with a similar payment profile to the lease payments? Clarification is needed. (Refer to September 2019 IFRS Interpretations Committee's agenda decisions) The scope of variable lease payments (included in the measurement of lease liability) that varies according to an index or rate (interest rate) - In IFRS 16, examples include only the variable lease payments that change according to the prices disclosed to the public, such as consumer price index, benchmark interest rate, and market lending rate (paragraph 28 of IFRS 16). However, the basis for conclusions (BC165) of IFRS 16 states in a broader sense that those payments are unavoidable and 'do not depend on any future activity of the lessee'. The issue is whether variable lease payments other than those that change according to the prices disclosed to the public are also included in the scope of variable lease payments as long as they are unavoidable and do not depend on any future activity of the lessee. Characteristics of the right to terminate considered in determining the lease term - There exist controversies regarding which of these should be applied to renewable leases: the lease term requirement relating to the right to terminate or the lease modification requirement—refer to June 2019 IFRS Interpretations Committee's tentative agenda decisions [Staff note: the tentative agenda decision will be discussed at the meeting on 26 Nov. The relevant staff paper can be found here]. Also, more concrete guidance is needed on what conditions and circumstances constitute the right to terminate. How should the difference between the derecognised right-of-use asset and the newly recognized net investment in a lease be accounted for when the classification of a sublease is changed from operating lease to finance lease upon the initial application of IFRS 16. - Opening retained earnings vs Profit or loss? When there exists a right to receive variable lease payments that change according to an index or rate (interest rate), should the lessor re-measure the net investment in the lease reflecting the change? This is an accounting issue that relates to many entities and the amount of money involved is often significant. Stakeholders affected: Entities, investors of entities, lenders and other creditors	Give clear definitions of lessee's incremental borrowing rate of interest, index or rate (interest rate), and right to terminate. Complement the requirements on the transition guide on intermediate lessor and measurement of net investment in a lease.	Small