Report of Emerging Economies Group

May 2017

Emerging Economies Group

The Emerging Economies Group (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 Standards.

This *Report of the Emerging Economics Group* provides a summary of the 13th EEG meeting held in Mumbai, India on 8-9 May 2017, hosted by the Institute of Chartered Accountants of India.

The EEG meeting was chaired by Darrel Scott, IASB Board Member.

13th EEG meeting agenda:

Agenda topics included:

- IFRS 15 *Revenue from Contracts with Customers*;
- Accounting for micro-entities;
- High-inflation;
- IASB update; and
- Administrative issues, including the *Role of EEG,* and *Arrangements for future meetings*.

The agenda papers for the meeting are available on the IFRS Foundation website: *http://www.ifrs.org/Meetings/Pages/eeg-meeting-may-2017.aspx*

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For further information about the Emerging Economies Group click here.

The next Emerging Economies Group meeting will take place 4-5 December 2017, São Paulo, Brazil.

Opening remarks

Mr Shiwaji B. Zaware, Chairman, Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI), opened the meeting. Mr Zaware presented an overview of the history and the activities of the ICAI.

Mr M P Vijay Kumar, Vice Chairman, Accounting Standards Board of the ICAI, outlined the process for convergence of India Accounting Standards with IFRS Standards (the Standards), including how India Accounting Standards are incorporated into law.

IFRS 15 *Revenue from Contracts with Customers*

Henry Rees, Director of Implementation and Adoption Activities at the International Accounting Standards Board (the Board) presented an overview of IFRS 15 *Revenue with Contracts with Customers*.

Implementation timeline

EEG members discussed the implementation support provided by the Board for IFRS 15. EEG members acknowledge the positive impact of the support from the Transition Resource Group (the TRG) and the benefits of the limited-scope clarifications arising from the TRG discussions.

Darrel Scott encouraged EEG members, in their role of national standard-setters, to undertake investor outreach to highlight the forthcoming changes that may arise when IFRS 15 becomes effective. He noted the importance of investors being able to understand changes to the revenue line when IFRS 15 becomes effective.

Henry Rees explained that it is important preparers plan for the new disclosure requirements. He noted that even if the new Standard does not require an entity to amend how it recognises or measures revenue, the entity may still be required to provide new disclosures.

The 5-step revenue recognition model

Henry Rees facilitated a discussion among EEG members introducing each of the steps in the revenue recognition model of IFRS 15 respectively.

Step 1 – Identifying the contract with the customer

EEG members discussed when a contract is within the scope of IFRS 15 and when a contract meets the criteria in IFRS 15 paragraph 9 for accounting for contracts. EEG members discussed specifically:

- ***Accounting for contracts that contain a "cooling-off" period and contracts that are subject to regulatory approval***
  EEG members discussed whether a contract that contains a "*cooling-off*" period or a contract subject to regulatory approval is within the scope of IFRS 15 and meets the criteria in paragraph 9. EEG members remarked that in making this decision an assessment is required of the contractual terms and conditions together with the legal environment governing the contract. In these situations it is important to assess the rights and obligations of each of the contractual parties, specifically the rights and obligations if a party chooses not to proceed with the contract in the "*cooling-off*" period or if regulatory approval is not received.

- ***Accounting for contracts if a customer is considered to fail the collectability criteria***
  An EEG member asked about the application of paragraph 9(e) if there is uncertainty the entity will collect the consideration. The EEG discussed the issue and noted a contract meets the criterion in IFRS 15 paragraph 9(e) when it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Consequently, paragraph 15 takes effect when it is *not probable* the entity will collect the consideration. Paragraph 15 is likely to apply only to a minority of contracts.

Step 2 – Identify the performance obligations in the contract

EEG members discussed how step 2 of the revenue recognition model determines the pattern for recognising revenue and consequently can have implications for tax cash flows.

EEG members discussed:

- if a connection charge for providing utilities can result in a separate performance obligation;
- if an administration fee, received over the life of a contract results in a separate performance obligation; and
- when performance obligations can be aggregated for the purposes of recognising and measuring revenue.

The EEG members discussed the importance of assessing the facts and circumstances, including any significant service of integrating goods or services, when identifying performance obligations.

Step 3 – Determine the transaction price

EEG members discussed the specific areas of guidance provided in IFRS 15 regarding variable consideration, significant financing, non-cash consideration, and consideration payable to the customer. Discussion among EEG members included:

- ***Identify significant financing components in contracts with milestone payments***
  EEG members discussed the difficulty in identifying if contracts with milestone payments also contain a significant financing component. EEG members agreed it is important to assess if the timing of contractual milestone payments compared with the transfer of goods and services to the customer provide either the customer or the reporting entity with a significant benefit of financing.

- ***Right to retain monies and significant financing components***
  An EEG member asked if a right to retain monies (retention monies) could also result in a financing component. EEG members agreed it would be necessary to evaluate the facts and circumstances of the contract, contrasting the terms of the contract with the terms of similar contracts with customers.

- ***Identifying the discount rate***
  EEG members discussed how to identify the discount rate to apply when a contract includes a significant financing component. It was noted that IFRS 15 states that an entity may be able to determine the rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they are transferred to the customer. EEG members acknowledge this as a practical way to identify the discount rate in some scenarios.

- ***High inflation and the effects on financing components***
  EEG members noted that in economies with high inflation the effects of financing can be material even in short-duration contracts. These EEG members noted that IFRS 15 paragraph 63 permits (but does not require) an entity not to adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be less than one year. It was noted that an entity electing to use the practical expedient in paragraph 63 is required to disclose this fact.

- ***Date of measurement of non-cash consideration***
  An EEG member asked for clarification of the measurement date for the fair value of non-cash consideration, for example at the date of exchange or at the contractual inception date. It was noted that illustrative example 31 of IFRS 15 considers this question. In addition paragraphs BC254B–BC254E discusses this question.

Step 4 – Allocate the transaction price

There was no specific discussion on this step of the model**.**

Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

EEG members discussed the criteria for performance obligations satisfied over time, noting that if the criteria are not met, then revenue is recognised at the point in time the customer obtains control of the promised asset.

EEG members noted that an entity might consider materiality and appropriate practical expedients in accounting for contract for which the performance obligation is satisfied over a short period of time that spans the reporting period end, for example a one-week shipping contract that takes place over the reporting period end.

Specific circumstances – principal versus agent

EEG members discussed the requirements in IFRS 15 for determining whether an entity is acting as principal or agent. In determining if the entity is principal or agent, an entity identifies the specified good or service to be provided to the customer and if the performance obligation is to provide that specified good or service itself (ie the entity is a principal) or to arrange for the other party to provide that good or service (ie the entity is the agent). The EEG noted the importance of control in making this determination.

Conceptual approach to IFRS 15

Igor Sukharev, Head of Division, the Ministry of Finance of the Russian Federation, presented on the *Coherence Shortcomings of IFRS 15.* Mr Sukharev noted his support for the principles that provide the foundation of IFRS 15. Nonetheless, he observed that the core principle and 5 steps of the model are not articulated in terms of changes in assets and liabilities. He suggested that this resulted in a lack of clarity about the nature of the assets and liabilities recognised applying IFRS 15.

Darrel Scott noted the contents of paragraphs BC17 to BC27, explain the conceptual approach applied in the development of IFRS 15 and why the board decided to articulate the Standard in terms of the recognition of revenue rather than changes in assets and liabilities. He noted that the outcome would have been the same under either approach. Darrel Scott also acknowledged that the Board needs to carefully consider the introduction on new terms when developing IFRS Standards in the future.

Accounting for micro-entities

Mr Zaware provided an overview of the accounting for micro-entities in India, including simplifications from India Accounting Standards. EEG members thanked him for the comprehensive presentation. Members agreed this topic, including the IFRS for SMEs, would be a useful topic to discuss at a future EEG meeting.

High inflation

Silvio Takahashi, on behalf of the Group of Latin American Accounting Standard Setters (GLASS), presented a paper on the effects of high inflation.

Darrel Scott reminded EEG members that GLASS had distributed a questionnaire to collect data on high inflation. He encouraged EEG members to complete and return the questionnaire to GLASS by 31 May 2017.

IASB update

Darrel Scott presented an overview of the Board's current activities.

EEG members were asked for comments on a draft update of the IFRS Foundation's Adoption Guide. EEG members suggested the updated Adoption Guide should highlight difficulties in addressing jurisdictions' legal requirements that differ from the Standards and the possible implications on tax cash flows that can arise on adoption of the Standards.

Administrative arrangements

EEG members discussed the objective and role of the group. EEG members agreed the focus of the group was to discuss issues of emerging economies on the implementation of the Standards.

EEG members discussed a report on how the discussions at the 12th EEG meeting were used by the Board and the staff. EEG members agreed to keep a list of issues discussed at the meetings.

Concluding remarks

In closing the meeting, Darrel Scott informed EEG members that Amaro Gomes, IASB Board Member, will be the new chairman of the EEG. He thanked the ICAI for hosting the meeting and the secretariat for its role in organising the meeting. He remarked on the important contribution of the EEG to the Board, particularly in supporting the implementation of the Standards.

Next meeting

The next meeting of the EEG will be held 4-5 December 2017 in São Paulo, Brazil.