

## STAFF PAPER

8-9 May 2017

## Emerging Economies Group

Project	Administrative Issues		
Paper topic	Objective and role of the EEG		
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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 (the 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*.

## Background

1. At its meeting in November 2016, the Emerging Economies Group (EEG) agreed it would be useful to discuss the objective and the role of the EEG. There is no requirement to undertake a review of the EEG. However, with the change in its Chairmanship and as discussed at the last meeting it would be useful to reconfirm the mandate of the EEG.
2. The administrative arrangements for the EEG, as agreed at its first meeting, are included in appendix 1 of this paper: *Administrative Outline for the IASB Emerging Economies Group (EEG)*.

## Aim

3. This paper asks EEG members for their advice on the objective and the role of the EEG.
4. If it is considered appropriate to make any changes to the objective and role of the EEG this will require discussion with the IFRS Foundation trustees.

5. At this meeting we would like to discuss with EEG members:

- (a) Objectives of the EEG;
- (b) Membership of the EEG; and
- (c) Meeting protocols

## Objectives of the EEG

6. The IFRS Foundation decided to form the EEG following the G20 urging the International Accounting Standards Board (the Board) (at its meeting in April 2009) to enhance the participation of emerging economies in the standard-setting process.

7. The IFRS Foundation's website states:

**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.**

The EEG focuses on issues around the application and implementation of IFRSs in emerging economies. In addition, the group may also consider if, and how, the IASB could provide educational guidance at the right level for interested parties in emerging economies and what the best delivery system for this would be. However, the remit of the EEG may evolve over time.

Topics for discussion are selected by the Chair and Vice-Chair, with the advice of EEG members. Possible topics include common control transactions and issues surrounding foreign currency translation, for instance.

8. Subsequent to the formation of the EEG, the IFRS Foundation and the Board have developed and enhanced arrangements for working with national standard-setters (NSS):

- (a) In 2013 the IFRS Foundation formed the Accounting Standards Advisory Forum (ASAF). We consider that there is a difference in the role and objective of the ASAF and EEG. The EEG is a good technical platform for emerging economies to communicate and exchange views on the development and implementation of IFRS Standards. Whereas the ASAF focus is to contribute to projects that are on either

the Board's standard-setting work plan or its research programme, although it has discussed some implementation topics.

- (b) In 2016 the IFRS Foundation reviewed its strategy for engagement with NSS. The Trustees decided:

The objective of working with NSS and regional bodies is to maintain and develop effective relationships that support the IFRS Foundation's strategic objective of developing in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.

To achieve this objective, the Foundation agreed three goals:

- Goal 1 – Maintain effective relationships and communication with NSS and regional bodies.
- Goal 2 – Encourage NSS and regional bodies to support implementation.
- Goal 3 – Work in collaboration with NSS and regional bodies in the Technical Work Programme.

9. The Administrative Outline for the EEG, as set out in appendix 1, provides that:

- (a) The EEG would efficiently utilize international accounting resources to achieve regular and systematic communication between emerging economies and the Board.
- (b) By addressing specific accounting issues of emerging economies (eg fair value measurement, agriculture accounting and transactions under common control, etc), the EEG will make more input in IFRS Standard setting from the perspective of emerging economies to reflect the broader needs and situations of emerging economies, which also assists to enhance the global recognition and quality of IFRS Standards.

10. In accordance with the Administrative Outline, the topic discussed at the meetings of the EEG focus on one issue (one meeting/one issue). The topic for the meeting is agreed between the EEG and the chair. The topics vary and appear to cover a broad range of projects:

- (a) topics on the Board's research agenda (e.g. discount rates, May 2015);

- (b) topics that support implementation but are not on the Board's agenda (e.g. IAS 20 *Government Grants*, May 2016);
  - (c) the Agenda Consultation 2015.
11. In addition to the main topic EEG members also discuss and provide input to other areas of the Board's agenda, for example post-implementation review of IFRS 13 *Fair Value Measurement* (November 2016), IAS 16 *Property, Plant and Equipment* (May 2016).
12. In considering whether to amend the objectives of the EEG we believe it is important the objectives reflect the benefits of the EEG to both its members and the Board (including the Foundation).
13. The Board benefits from the EEG meetings as they:
- (a) support maintaining effective relationships with NSS from emerging economies;
  - (b) provide feedback on implementation challenges, supporting consistent application; and
  - (c) allow for a forum to discuss, where applicable, topics from the Board's research programme or on its standard-setting work plan.
14. The EEG members benefit from the EEG meetings as they:
- (a) permit members to discuss issues/challenges directly with Board members and its staff;
  - (b) enable EEG members to share experiences on the implementation and application of IFRS Standards; and
  - (c) allows the EEG to provide input to the Board's research programme and standard-setting work plan.
15. We would like to discuss the following suggested objective for the EEG group:

### **Preamble**

The objectives of the IFRS Foundation include:

- (a) the development, in the public interest, of a single set of high quality, understandable,

enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.

- (b) the promotion of the use and rigorous application of those standards.
- (c) in fulfilling the objectives associated with (a) and (b), taking account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
- (d) the promotion and facilitation of the adoption of the IFRS Standards, being the Standards and IFRIC<sup>®</sup> Interpretations issued by the Board, through the convergence of national accounting standards and IFRS Standards.

### **Objectives of the Emerging Economies Group**

The objective of the EEG is to provide an advisory forum where members support the Foundation in its objectives, and contribute towards the development, in the public interest, of a single set of high quality, understandable, enforceable and globally accepted financial reporting standards to serve investors and other market participants in making informed resource allocations and other economic decisions, by:

- (a) constructively contributing to the rigorous application of Standards through the;
  - (i) identification of emerging issues;
  - (ii) sharing of experiences;
  - (iii) discussion of common problems, and where applicable, the solutions to those problems; and
  - (iv) discussion of in-country implementation guidance.
- (b) constructively contributing to the standard setting agenda through;
  - (i) providing input to the Board's agenda setting process, and
  - (ii) providing input to the Board's technical agenda.

16. In developing the suggested objective, we have aimed to reflect that the EEG focuses on issues

around the application and implementation of IFRS Standards but allows scope for the EEG to contribute to the Board's standard setting agenda.

**Question 1 –Objective**

Do EEG members consider the suggested objective captures the objective of the EEG?

**Membership of the EEG**

17. The present membership of the EEG is set out in appendix 2 of this paper. There are 12 permanent members of the EEG, predominantly from G20 countries. In addition, the Administrative Outline (appendix 1) allows for temporary members, who are added to EEG meetings for specific topics.
18. The Board has received requests to expand the membership of the EEG. Consequently, in reviewing the objective and role of the EEG, the staff believe we should also consider whether, and if so how, to expand the membership of the EEG. In considering whether to expand the membership of the EEG two views need to be balanced:
  - (a) Increasing the size of the EEG will allow more jurisdictions to participate.
  - (b) Retaining the size (or decreasing the size) ensures the effectiveness of discussions at the EEG meetings.

*Combining permanent and temporary members*

19. An approach to balancing the two views would be to supplement the existing membership with a small number of rotating membership places. The existing membership would be retained as permanent members. A call for nominations would be made for the rotating membership places. Rotating members would be appointed for a specified number of years (most likely 3 years).

20. A membership consisting of both permanent and rotating members enables more jurisdictions to participate whilst still maintaining the effectiveness of discussions through continuity of the core group.

#### *Rotating membership*

21. An alternative approach would be to appoint all members for a specified period (eliminating permanent members) similar to appointments to the ASAF.
22. A call for nominations would be made for membership to the EEG. Members would be appointed for a specified number of years (most likely 3 years) with a possibility for a second term. The call for nominations would also include the criteria for selecting members.

#### *Criterion for membership*

23. One of the criterion for selecting members could include EEG members committing to provide the necessary resources to act as active members of the EEG, including time and travel costs. This criterion would assist in helping to ensure those applying to the EEG have the resources to attend EEG meetings regularly. Additional criteria may include a commitment to the objectives of the IFRS Foundation.

#### *Other considerations*

24. The EEG may also want to consider whether it would be appropriate to update the Administrative Outline to permit, in certain circumstances, that members be able to attend the meeting by video link. This would not be encouraged as meetings in person are generally considered to be more effective, but permitting members to follow a meeting and possibly participate remotely may promote continuity of discussion.
25. The EEG may also want to consider whether an allowance could be made for the chair or vice-chair to invite a representative of a non-member NSS to attend and participate in the EEG meetings, subject to any attendee having the technical expertise and capability to make a valuable contribution to the EEG meeting. Allowing individual NSS to be invited to the meeting would avoid the need for temporary membership to be granted.

**Question 2 – Membership**

What are EEG members' views on:

- a. Amending the membership of the EEG to:
  - i. include both permanent and rotating members; or
  - ii. rotation of the membership?
- b. Including in the membership criteria, members commitment to providing the necessary resources to act as active members of the EEG, including time and travel costs?
- c. Permitting the chair or vice-chair to invite a representative of a non-member NSS to attend and participate in the EEG meetings?

**Meeting protocols**

26. We would like to seek the views of the EEG members on the protocol at meetings.

***Members representation***

27. Currently there is no restriction on the number of representatives from member organisations that participate in the discussions at the meetings of the EEG. It may be possible to improve the efficiency and continuity of the meetings if there is a single designated representative from each member organisation. That member could nominate another member from their organisation to represent the organisation in discussions on particular agenda items.

**Question 3 – Members representation**

Do EEG members consider there should be a single designated representative from each member organisation?



## **Communication**

28. At the last meeting of the EEG members agreed that to permit a more open dialogue it would be beneficial if the meetings were not recorded. We do not consider that there is a specific requirement in the Board's due process requirements to record the meetings. However, if the meetings are not recorded it is important that we communicate the discussions at the meeting in more detail than the current communiqué provides. This would also permit members not attending the meeting and non-members to benefit from the discussions.
29. In appendix 3 of this paper we have set out an example EEG Update based on the last meeting of the EEG. The Update would be drafted by IASB staff and the EEG secretariat. In drafting the proposed EEG Update, we have tried to communicate effectively the discussions at the EEG meeting, without the need for details transcript style notes.

### **Question 4 – Communication**

What are EEG members' views on the proposed EEG Update?

## **Feedback**

30. At the last meeting of the EEG, one of the areas discussed was how the Board uses the feedback from EEG meetings. We have prepared a Feedback Report to EEG members at agenda paper 2B of this meeting. This feedback report is in the same style as that provided to the ASAF.

### **Question 5 – Feedback**

Do EEG members have any comments on the Feedback Report?

## **Next Steps**

31. Once we have received the feedback from the EEG we plan to discuss the feedback and present proposals to the IFRS Foundation trustees probably at its meeting in November 2017.

## **Administrative Outline for IASB Emerging Economies Group (EEG)**

### **I. Purpose & Mission**

It's becoming more and more important to enhance the voice of emerging economies in IFRSs setting, with the goal to achieve a single set of high quality global accounting standards, as a response to the G-20 Declaration and post financial crisis globalization.

Therefore, the EEG would efficiently utilize international accounting resources to achieve regular and systematic communication between emerging economies and the IASB. By addressing specific accounting issues of emerging economies (eg. fair value measurement, agriculture accounting and transactions under common control, etc.), EEG will make more input in IFRSs setting from the perspective of emerging economies to reflect broader needs and situations of emerging economies, which also assists enhancing the global recognition and quality of IFRSs.

### **II. Organization**

#### **(a) Member Countries**

At present, the member countries of EEG are emerging economies in the Group of Twenty (G-20) members, including: *China, Russia, Indonesia, India, Saudi Arabia, South Africa, Turkey, Brazil, Argentina, Mexico, and Republic of Korea*. Malaysia will also be one of the original members.

More emerging economies are within consideration when EEG naturally grows and expands in the future.

#### **(b) Membership**

Mr. Wayne Upton, the IASB Director of International Activities will chair the EEG, and Ms. Yang Min, the Director-General of Accounting Regulatory Department of Ministry of Finance, P.R.China (the permanent member from the member country where the liaison office is located) will be the Vice Chair.

In order to keep the effectiveness and continuity, the EEG is comprised of permanent members and temporary members. The permanent members are representatives designated by and from national standards setters in the member countries (one member for each setter), and the temporary members are added to EEG meeting for a specific issue, who are nominated by national standards setters.

### **III. Working Mechanism**

*Two plenary meetings* should be held by EEG every year. The member countries will take turns hosting the plenary meetings. After plenary meetings, the meeting minutes should be sent to each member with content of key issues, meeting discussions and conclusions prepared by the EEG liaison office.

Meanwhile, the *recommendation to IASB* (such as the proposed amendments to existing IFRSs or

IFRICs or adding new items to the agenda) will be submitted to IASB through the EEG liaison office, for IASB's consideration at the Board meeting.

Plenary meetings are divided into administrative meetings and technical meetings. **Administrative meetings** are hosted by the Chairman and attended by all the permanent members and the temporary members on a voluntary basis to discuss administrative issues relating to organization operation. The topics are determined by the Chairman and the Vice Chairman and the minutes are prepared by the EEG liaison office.

**Technical meetings** are hosted by the chairman and attended by all the permanent members and the temporary members, who are selected by their local standard setter based on their expertise in specific topic to be discussed in the meeting. The meeting is conducted under “**one meeting/one issue**” mode, which means the EEG would discuss only one topic at a meeting, which is determined by last plenary meeting. For each topic, a **working group** will be formed by members on a voluntary basis with one leader, and it will be in charge of preparing the meeting material and meeting minute, with necessary assistance of the EEG liaison office. Each national standard setter will select from preparers, users, auditors and other related experts (as the temporary members) to attend the EEG technical meetings (limited to a specific topic and have no further responsibility on other topics).

When the EEG is not in session, daily operation and updates of EEG would be conducted through the EEG Liaison office via emails and telephone conference, etc.

#### IV. EEG Liaison Office

The EEG liaison office is the standing office for daily operation. Led by the Chairman and Vice Chairman, the liaison office's **main responsibilities** include (a) providing assistance on preparing EEG plenary meetings and delivering meeting materials on timely basis; (b) keeping communication between members and the IASB, especially reporting to the IASB regarding the meeting minutes and EEG's recommendations; (c) expanding the communication between members and promoting the interactions and cooperation between emerging economies on accounting issues; and (d) other matters of interest raised by the Chairman and Vice Chairman.

The EEG liaison office is set in China, and the full name will be “IASB Emerging 3/3 Economies Group Liaison Office”. The liaison office will hire full time staff to support office operation and report to the Chair and Vice Chair.

IASB and the Chinese Ministry of Finance are mutually responsible for the operation costs of the liaison office. The host member is responsible for the expenses of plenary meetings (including catering, meeting rooms and equipment); the travel costs and the accommodations shall be covered by the participants themselves

## Emerging Economies Group membership as of March 2016

Chair and Vice-Chair		
Chair	Currently, Darrel Scott	IASB Board Member
Vice-chair	Mr. Yibin Gao	Director-General, Accounting Regulatory Department, Ministry of Finance, China Director-General, China Accounting Standards Committee (CASC)

Member country	Representative body	Representative
Argentina	Argentine Auditing and Accounting Standards Board (FACPCE)	Jorge José Gil Professor, University of Cuyo, Aconcagua University; General Director of AAASB (FACPCE)
Brazil	Brazilian Accounting Announcements Committee (CPC)	Silvio Takahashi Chair of International Relations
China	Accounting Regulatory Department, Ministry of Finance	Dr. Yu Chen Director
India	Institute of Chartered Accountants of India (ICAI)	Nilesh Shivji Vikamsey President, ICAI
Indonesia	Indonesian Accounting Standards Board (DSAK)	Djohan Pinnarwan Chairperson
Korea	Korea Accounting Standards Board (KASB)	Sungsoo Kwon Vice Chairman
Malaysia	Malaysian Accounting Standards Board (MASB)	Tan Bee Leng Executive Director
Mexico	Mexican Financial Reporting Standards Board (CINIF)	Felipe Perez Cervantes Chairman
Russia	Ministry of Finance of the Russian Federation, Department of Regulations on Accounting, Financial Reporting and Auditing	Leonid Shneydman Director
Saudi Arabia	Saudi Organization for Certified Public Accountants (SOCPA)	Dr. Ahmad Al Meghames Secretary General
South Africa	Financial Reporting Standards Council (FRSC)	Durnisani Manana Member
Turkey	Public Oversight, Accounting and Auditing Standards Authority (POAASA)	Seyit Ahmet Bas Chairman

# Report of Emerging Economies Group



November 2016

## ***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 summarises the 12<sup>th</sup> EEG meeting held in South Africa on 3–4 November 2016.

## ***Agenda for the 12<sup>th</sup> meeting of the EEG***

The EEG discussed:

- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*
- *Post-implementation review of IFRS 13 Fair Value Measurement*
- *Financial Statements of Subsidiaries*
- *IASB<sup>®</sup> Update*

The agenda papers for the meeting are available on IFRS website:

<http://www.ifrs.org/Meetings/Pages/EEG-meeting-november-2016.aspx>).

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[For further information about the Emerging Economies Group click here.](#)

***Opening remarks***

South Africa, as hosts of the meeting, opened the meeting by acknowledging their respect for the late Wayne Upton, former chair of the Emerging Economies Group (EEG).

The South African delegation noted that emerging economies encourage foreign direct investment; robust accounting and auditing supports good corporate governance, which influences the cost of capital.

***IAS 37 Provisions, Contingent Liabilities and Contingent Assets***

Darrell Scott, a member of the International Accounting Standards Board (the Board), provided an overview of the requirements of IAS 37, including an overview of previous Board technical project on possible improvements to IAS 37.

The EEG discussed some implementation challenges that arise in applying IAS 37. Members noted that in deciding if an item meets the definition of a liability:

- identifying the obligating event can be difficult; and
- deciding what the unit of account is (a single item or a group of items) is important.

The EEG members:

- did not support the Board's previous proposals to remove from the recognition criteria the requirement that "it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation".
- supported a proposal that a single liability should be measured at the most likely outcome and a group of liabilities should be measured at expected value;
- agreed that legal costs of defending a claim should not be included in the measurement of the liability;
- agreed that clarification is required as to what the risk adjustment should include; and
- thought it would be useful for the Board to provide further guidance on measuring onerous contracts, including what costs can be included in measuring the loss.

EEG members discussed some specific circumstances related to IAS 37, including:

- what the obligating event is in relation to decommission liabilities, including whether the presentation requirements in current IFRS Standards provide useful information; and
- the relationship between IAS 37 and IAS 12 *Income Taxes*.

***Case Study***

EEG members discussed the interaction between IAS 37 and IFRS 15 *Revenue from Contracts with Customers*, including the identification of the obligating event when a property developer is required to perform activities not specifically linked to the contract with the customer. The members discussed the following questions:

- what is the unit of account—the overall development or each phase of the development?
- what is the obligating event?
- what happens to borrowing costs?
- in which order does an entity apply the requirements of IAS 37 and IFRS 15?

***Implications of Conceptual Framework proposals***

Darrel Scott summarised the Board's proposals to change the definition of a liability arising from the *Conceptual Framework* project. EEG members agreed with the proposed changes; however, they said the Board should explain how past practice gives rise to constructive obligation.

***IASB Update***

Darrel Scott summarised the Board's current activities.

An EEG member recommended that the *Pocket Guide to IFRS Standards: the global financial reporting language* should include information on the adoption of IFRS for SMEs.

***Financial Statements of Subsidiaries***

Igor Sukharev from the Russian Federation's Ministry of Finance presented a paper on the preparation of separate financial statements when the entity is exempt from issuing consolidated financial statements. EEG members noted:

- the cost of preparing subsidiary financial statements needs to justify by their use;
  - there are differences between parent entity and non-parent entity separate financial statements;
  - any project of the preparation of separate financial statements needs a clear objective; and
-

- non-controlling interests and intercompany transactions are important disclosures for subsidiary financial statements.

The EEG members decided to continue the discussion at a future meeting but to consider the objective of the project and how it relates to the Board's technical Work Plan.

### ***IFRS 13 Fair Value Measurement***

Michelle Sansom presented an overview of the Post-implementation Review of IFRS 13 *Fair Value Measurement* and asked EEG members for feedback on the implementation of the IFRS 13. EEG members noted that the Group had discussed the application of IFRS 13 at its meeting in May 2011. At this meeting EEG members raised the following topics:

- price x quantity differences between a level-one valuation and level-three valuation. At level one, the value cannot be adjusted for a controlling premium, whereas a level-three valuation permits adjustment for a controlling premium.
- differences in how IFRS 13 is applied to bearer plants.
- level 1 and level 2 property measurements.
- identifying an entity's principal market.
- determining the 'highest' and 'best' use where there is volatility in the market.
- measuring contingent consideration.

### ***Administrative arrangements***

The EEG members agreed it would be useful to discuss the objective and role of the group at its next meeting, including how the Board and its staff use the EEG meetings. A number of members offered to hold the next EEG members meeting.

The following topics were identified for discussion at a future meeting:

- IFRS for SMEs
- IAS 23 *Borrowing Costs*
- IFRS 15 *Revenue from Contracts with Customers* – implementation matters
- IFRS 16 *Leases* – leasehold land and definition of a lease
- Goodwill and Impairment
- change of a functional currency
- structures of the Statement of Financial Position



**DRAFT**

EEG Agenda ref	<b>2A</b>
Appendix	<b>3</b>

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