Report of the Emerging Economies Group Meeting

17–18 May 2021

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 21st EEG meeting, held via remote participation, on 17–18 May 2021.

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

21st EEG meeting agenda

Agenda topics included:

- Rate-regulated Activities;
- Update on sustainability reporting;
- Third Agenda Consultation;
- Business Combinations under Common Control;
- Agenda Decisions: IFRS Interpretations Committee;
- *IFRS for SMEs* Standard Review;
- Applying IAS 12 *Income Taxes*;
- Update on IASB Activities.

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Further information about the Emerging Economies Group is available on the IFRS Foundation [website](https://www.ifrs.org)

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

Opening comments

Tadeu Cendon, Board member, welcomed the EEG members to the third virtual meeting of the EEG and thanked the Chinese Ministry of Finance for providing the secretariat for the EEG.

Rate-regulated Activities

The aim of this session was for EEG members to provide feedback on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* published by the Board in January 2021.

The technical staff provided an overview of the proposals in the Exposure Draft.

Scope

EEG members had varied views on the proposed scope of the proposals.

A small number of EEG members said the proposed scope is too narrow. The proposals focus on differences in timing that give rise to rights to increase and obligations to decrease the regulated rates to be charged to customers in the future. However, in some cases the rate regulation to which an entity is subject causes differences in timing that are settled directly with a governmental authority. These members said that differences in timing that are settled in other ways, for example by a governmental authority, should be included in the scope. The staff explained that if an entity had a right to receive cash from or an obligation to pay cash to a governmental authority, the entity may have a financial asset or financial liability instead of a regulatory asset or regulatory liability.

A small number of EEG members said the proposed scope is too wide because the proposals do not define 'regulator' or do not require some form of government regulation as a condition for applying the proposed Standard. These members said that the wide scope of the proposals could result in preparers incurring significant costs when assessing whether their regulatory agreements include regulatory assets and regulatory liabilities. The staff explained that the Board had concluded that it need not define the term regulator because what matters is that the regulatory agreement creates rights and obligations that are enforceable. In relation to the need for some form of government regulation, the staff said an entity cannot create enforceable rights and obligations with itself and therefore regulatory agreements rely on a regulatory framework that is separate from the entity.

One EEG member said that, in her jurisdiction, it may not always be possible to determine whether an entity has enforceable rights and enforceable obligations. The member questioned whether the problem the Board is trying to solve in this project is prevalent in many jurisdictions or affects only a small number of jurisdictions and if so whether the Board should dedicate its limited resources to other projects. The staff explained several jurisdictions need the project. A Board member observed that the Board issued IFRS 14 *Regulatory Deferral Accounts* as an interim Standard. Consequently, it is expected that the Board will complete this project to replace IFRS 14.

Total allowed compensation for goods or services

One EEG member asked whether all components of total allowed compensation need to be present for the entity to conclude whether it would be affected by the proposals. The staff clarified that the conditions for regulatory assets or regulatory liabilities to exist do not require the presence of all components of total allowed compensation. Instead, regulatory assets or regulatory liabilities exist when an entity is subject to an enforceable regulatory agreement that determines the regulated rate in such a way that differences in timing arise.

The member raised concerns about the proposals to include in the statement of profit or loss returns on an asset that is being constructed by the entity only when the asset becomes available for use. The member also mentioned that applying these proposals may be costly for preparers. The staff explained that the Board is seeking feedback from users of financial statements on whether the proposals for regulatory returns on assets not yet available for use would produce useful information.

Recognition

One EEG member suggested that it would be helpful if the basis for conclusions on the Standard explained how the 'more likely than not' criteria for recognition is supported by the *Conceptual Framework for Financial Reporting*.

Measurement

One EEG member said that regulated rates are commonly determined for a block of years rather than annually. The member queried whether enforceable rights and enforceable obligations exist beyond the current block of years. The staff pointed out that paragraphs B28–B40 of the Exposure Draft help an entity to assess the boundary of a regulatory agreement. The boundary is the point beyond which a regulatory agreement confers no enforceable rights and imposes no enforceable obligations.

Another EEG member said that, in her jurisdiction, regulatory agreements may not always have clear terms and consequently estimating future cash flows would be a costly exercise which may not result in useful information for users of financial statements. In her view, costs would outweigh the expected benefits.

Another EEG member did not express agreement with the proposal to use the regulatory interest rate as the discount rate because such a rate may not precisely compensate or charge an entity for the time value of money and for the uncertainty in the future cash flows. The member said the Board should consider requiring an entity to discount the cash flows using a rate that appropriately reflects the features of the underlying cash flows. The staff explained that, when developing the proposals, the Board considered its usual decision to specify a rate that reflects the characteristics of the future cash flows. However, the Board concluded that any benefit of the incremental information provided would be unlikely to outweigh the associated costs and complexity.

Interaction with IFRIC 12 *Service Concession Arrangements*

Some EEG members said that, in their jurisdictions, some service concession arrangements within the scope of IFRIC 12 may include regulatory assets and regulatory liabilities.

One EEG member said he has observed that some stakeholders have concluded that service concession arrangements that are outside the scope of IFRIC 12 are also outside the scope of the Exposure Draft. In his view, a service concession arrangement outside the scope of IFRIC 12 could still be affected by the proposals.

Another EEG member said the assessment of service concession arrangements is in progress in her jurisdiction and the initial analysis suggests these arrangements include regulatory liabilities but not regulatory assets. In response to a query by the member, the staff said that regulatory agreements that include only regulatory assets or only regulatory liabilities would also be within the scope of the proposals.

Presentation and Disclosure

EEG members expressed general agreement with the presentation and disclosure proposals.

A small number of EEG members commented that the Board should also require entities to disclose in the notes the effects of rate regulation beyond the effects of regulatory assets and regulatory liabilities. These members said such disclosures would help users of financial statements to understand the regulatory environment in which a rate-regulated entity operates. The staff explained that, when developing the proposals, the Board considered this matter, but decided to align the overall disclosure objective with the objective of the proposals, which is to provide information about the effects of regulatory assets and regulatory liabilities on an entity's financial performance, financial position and future cash flows.

Transition

One EEG member said retrospective application would, in his view, be appropriate.

Update on sustainability reporting

The aim of this session was to update EEG members on the IFRS Foundation project on sustainability reporting.

The staff provided the update.

In response to a query from one EEG member, the staff explained how the sustainability working groups, including the technical working group and the multilateral working group, plan to share information with each other.

Third Agenda Consultation

The aim of this session was to provide EEG members with an overview of the Request for Information on the *Third Agenda Consultation*, published in March 2021, and to discuss their initial views.

The technical staff provided the overview of the Request for Information.

Strategic direction and balance of the Board's activities

Some EEG members said the overall balance of the Board's activities is generally appropriate. However, these members provided suggestions to rebalance the level of focus on each activity:

(a) all of these members suggested the Board increase the level of focus on maintenance and consistent application. The members said the Board should focus more on providing implementation support on recently issued IFRS Standards and on capacity-building initiatives. One member recommended the Board develop more educational materials, whereas another member expressed concerns that educational materials risk creating diverse interpretations of IFRS Standards in practice.

(b) most of these members suggested the Board reduce the level of focus on new IFRS Standards and major amendments to IFRS Standards because, in their view, stakeholders need a period of relative calm. However, these members said the level of focus should still ensure the completion of projects already underway. One member said the Board should maintain its current level of focus on this activity because of the need to conduct the Post-implementation Reviews of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

(c) some of these members suggested the Board increase the level of focus on the *IFRS for SMEs* Standard. They suggested undertaking research to understand why the number of jurisdictions permitting the use of the Standard has not increased recently before considering the future direction of the Standard.

(d) some of these members suggested the Board increase the level of focus on understandability and accessibility.

(e) one member suggested the Board increase the level of focus on stakeholder engagement because that is an important success factor for the Board. However, another member suggested the Board decrease the level of focus on stakeholder engagement because the major standard-setting projects have been completed.

(f) one member suggested the Board increase its focus on digital financial reporting. The member said reducing diversity in the adoption and use of the IFRS Taxonomy is important to achieve global comparability of financial information in the digital world. He suggested providing increased transparency on the use of the IFRS Taxonomy around the world, for example, by updating the jurisdiction profiles on the IFRS Foundation website.

Criteria for assessing the priority of financial reporting issues

EEG members' comments included:

(a) agreement with the proposed criteria and a request to provide further clarification and guidance on how the criteria would be applied.

(b) suggestions for the Board to separate the proposed criteria into categories with different purposes. Some members suggested the proposed criteria in the first category should be used to determine *whether* to undertake a potential project and the criteria in the second category should be used to determine *when* to add the project to the work plan. However, these members had different views on which proposed criteria should be in each category. Another member suggested the Board separate the proposed criteria between those that are essential and those that are 'nice to have'.

(c) suggestions for additional criteria for the Board to consider. One member said the Board should also consider how old the underlying Standard is and the extent to which the Standard accurately reflects recent developments in practice.

(d) a suggestion that, for each project the Board decides to add to its work plan as a result of this agenda consultation, it would be helpful to understand the relative importance of each criterion used to assess the project.

Priority of financial reporting issues that the Board could add to its work plan

Some EEG members provided suggestions on the new financial reporting issues that the Board could add to its 2022–2026 work plan:

(a) most of these members identified a project on intangible assets as a high priority. These members commented that IAS 38 *Intangible Assets* is an old Standard and does not provide useful information for new types of transactions that are becoming more common. These members said it would be helpful to undertake a comprehensive review of the Standard.

(b) most of these members identified a project on other comprehensive income as a high priority. These members commented that IFRS Standards have different requirements on whether to recycle an item from other comprehensive income to profit or loss and raised concerns about inconsistencies in practice that have arisen as a result.

(c) some of these members identified a project on cryptocurrencies as a high priority. These members said that there is no IFRS Standard that appropriately addresses the accounting for cryptocurrencies. One member said cryptocurrencies could be addressed as part of a comprehensive project on intangible assets.

(d) one member identified a project on borrowing costs as a high priority. She said IAS 23 *Borrowing Costs* is an old Standard, there is diversity in application of the Standard and the definition of borrowing costs needs to be updated.

(e) one member identified a project on government grants as a high priority. She said IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is an old Standard and does not address practice issues, including those that have arisen due to the covid-19 pandemic.

(f) one member identified projects on climate-related risks and pollutant pricing mechanisms as high priorities.

(g) one member suggested a project on discount rates because there are inconsistencies in the measurement techniques used in practice, according to this member.

(h) one member suggested a project on going concern to address alternative bases for reporting when the going-concern assumption is no longer appropriate.

(i) one member suggested a project on separate financial statements. He said that IAS 27 *Separate Financial Statements* contains insufficient guidance, and it would be helpful to undertake a comprehensive review of the Standard.

Business Combinations under Common Control

The aim of this session was to seek EEG members' views on when the acquisition method and a book-value method should be used and how those methods should be used by the receiving entity in a business combination under control.

The technical staff provided an overview of:

(a) the Discussion Paper *Business Combinations under Common Control* published by the Board in November 2020; and
(b) the initial feedback on the Discussion Paper.

The EEG member from China presented a paper setting out the initial feedback on the Discussion Paper from his stakeholders:

(a) some stakeholders view a business combination under common control as a kind of group restructuring or resource reallocation directed by the controlling party, rather than a purchase in substance. These stakeholders argue that the economic substance of such a combination might differ from that of business combinations in the scope of IFRS 3 *Business Combinations*. They said that the existence of non-controlling shareholders may affect the pricing method and the transaction price of business combinations under common control;

however, in their view, this not a determinative factor when making judgements on the economic substance of these transactions.

(b) the information needs of all shareholders, including the controlling party, should be considered. The focus on the information needs of non-controlling shareholders in the Discussion Paper may be inconsistent with the *Conceptual Framework for Financial Reporting*'s focus on the reporting entity rather than on a particular group of capital providers.

(c) in China, non-controlling shareholders do not show a strong preference for accounting information provided by the acquisition method.

(d) it may be difficult to determine whether holders of particular claims against the entity, such as debt instruments with characteristics of equity, convertible financial instruments, preferred stock or perpetual financial instruments, should be treated as non-controlling shareholders.

(e) the acquisition method is costly to apply and involves a lot of judgement and estimates in purchase price allocation and subsequent testing of goodwill for impairment.

Other EEG members made the following comments about the Board's preliminary views on which method to apply:

(a) two members reported support for or no objections to the Board's preliminary views.

(b) one member agreed with the Board's preliminary view that neither the acquisition method nor a book-value method should apply in all cases but suggested that the acquisition method should be applied if the transaction was undertaken on market terms. The member expressed a view that the presence of non-controlling shareholders in either the receiving entity or the transferring entity is relevant to assessing whether the transaction was undertaken on market terms.

(c) one member reported varied views in his jurisdiction and noted that his regulator supported a book-value method even if there are non-controlling shareholders in the receiving entity.

(d) one member questioned the different accounting treatment for bargain purchase applying the acquisition method compared to the requirements in IFRS 3 and suggested the Board clarify the rationale for its suggested approach for business combinations under common control.

Agenda Decisions: IFRS Interpretations Committee

The aim of this session was to explain the role of agenda decisions and provide an overview of a sample of recent agenda decisions published by the IFRS Interpretations Committee.

The technical staff explained the role of agenda decisions and provided EEG members with an update on the Committee's December 2020, February 2021 and March 2021 meetings.

A small number of EEG members asked clarifying questions regarding the role of agenda decisions and the Committee's recent discussions on *Classification of Debt with Covenants as Current or Non-current* (IAS 1).

Considering the clarity provided in the 2020 revision to the *Due Process Handbook* (ie that accounting not aligned with an applicable agenda decision would be inconsistent with IFRS Standards), one EEG member suggested taking additional steps to encourage more feedback on tentative agenda decisions.

A small number of EEG members said they have translated or are looking to translate agenda decisions into the jurisdiction's language to improve accessibility of agenda decisions.

IFRS for SMEs Standard Review

The aim of this session was to provide an update on the project and discuss with EEG members four topics for which the *IFRS for SMEs* Standard could be aligned with IFRS Standards as discussed in the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* published by the Board in January 2020.

Alignment with IFRS 10 *Consolidated Financial Statements* for investment entities

The Request for Information sought views on not to introduce the requirement in IFRS 10 that investment entities measure investments in subsidiaries at fair value through profit or loss (FVTPL).

Two EEG members said there is no need to introduce a new requirement for investment entities to measure investments in subsidiaries at FVTPL because:

(a) the existing requirements in the *IFRS for SMEs* Standard are sufficient to meet the information needs of users of SME financial statements because SME investments are generally less complex than those of entities that have public accountability;

(b) only a small number of entities eligible to apply the *IFRS for SMEs* Standard will also be investment entities as defined in IFRS 10; and

(c) an SME that is an investment entity may be holding unquoted investments, which would be more complex and costly to measure.

In contrast, one EEG member said that, to be classified as an investment entity, IFRS 10 requires the entity to measure and evaluate the performance of substantially all of its investments on a fair value basis; therefore, the information should be available without undue cost and effort. The member, citing a need to look at the *IFRS for SMEs* Standard holistically, emphasised the importance of keeping it simple. The majority of SMEs in Brazil are very small entities, and the *IFRS for SMEs* Standard is complex for these entities. For this reason, the member said, Brazil intends to update its own guidance for micro- entities, which is less complex than the *IFRS for SMEs* Standard.

Alignment with IFRS 9 *Financial Instruments* for impairment of financial assets

The Request for Information sought views on aligning the *IFRS for SMEs* Standard with the simplified approach for the impairment of financial assets set out in IFRS 9.

Three EEG members did not support aligning the IFRS *for SMEs* Standard with the IFRS 9 simplified approach because the approach:

(a) might be too complex for SMEs. One member recommended retaining the incurred-loss model in the *IFRS for SMEs* Standard to keep the Standard simple.

(b) focuses on credit risks of the financial assets—which may not be the most important risk faced by SMEs—and requires SMEs to recognise lifetime expected credit losses for financial assets, which would be costly.

Alignment with IFRS 9 for hedge accounting requirements

The Request for Information sought views on three alternatives for hedge accounting requirements in the *IFRS for SMEs* Standard:

(a) removing the requirements on hedge accounting in Section 12 *Other Financial Instrument Issues* of the *IFRS for SMEs* Standard;

(b) retaining the requirements on hedge accounting in Section 12; and

(c) aligning the requirements on hedge accounting in Section 12 with IFRS 9.

One EEG member expressed the view that Section 12 should not include hedge accounting requirements because:

(a) hedging transactions are not common among SMEs; and

(b) costs of applying the requirements are greater than its benefits.

Alignment with IFRS 9 for issued financial guarantee contracts

The Request for Information sought views on:

(a) adding to the *IFRS for SMEs* Standard the definition of a financial guarantee contract in IFRS 9; and

(b) aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

One EEG member expressed appreciation for the Board's effort in revisiting the accounting treatment for issued financial guarantee contracts with a view to providing measurement relief, which is in line with the objective of keeping the *IFRS for SMEs* Standard simple, but the member did not agree with aligning the requirements in the *IFRS for SMEs* Standard for issued financial guarantee contracts with IFRS 9.

The member said:

(a) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of* Ireland (which is based on the *IFRS for SMEs* Standard) requires financial guarantee contracts to be accounted for applying Section 21 *Provisions and Contingencies* rather than Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*; and

(b) the requirements in Section 21 *Provisions and Contingencies* of the *IFRS for SMEs* Standard can be applied to issued financial guarantee contracts (similarly to FRS 102).

Applying IAS 12 *Income Taxes*

The aim of this session was to share stakeholders' experience in applying IAS 12 in South America and discuss with EEG members a proposal to amend the Standard to provide an exception, in specific situations, from the recognition of deferred tax liabilities related to non-depreciable items of property, plant and equipment, intangible assets and investment properties.

The EEG representative from Argentina explained the proposal and asked EEG members to share their experiences and share any feedback on the proposal.

One EEG member said a similar exception could be relevant to India for reserves held by financial institutions. Board members and technical staff asked clarifying questions and explained why, in their views, addressing the matter might not be possible through a narrow-scope amendment but would instead require a broad consideration of IAS 12. One Board member said to the extent relevant, it might be helpful to include this matter in feedback to the Board as part of its Request for Information on the *Third Agenda Consultation*.

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.

Bruce Mackenzie, Board member, provided the update.

Next meeting

The next EEG meeting will be held on 2–3 December 2021 by video conference.