Meeting summary

Emerging Economies Group

Date **28–29 May 2024**

This document summarises a meeting of the Emerging Economies Group (EEG). The 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 Accounting Standards. The members of the EEG are nominated National Standard-Setters from emerging economies.

Meeting report and attendance

1. This report summarises the 27th EEG meeting held on 28–29 May 2024 in Taiyuan (China).

2. The meeting provided a platform to discuss several topics in financial reporting from the perspective of emerging economies, supporting the IFRS Foundation's mission to develop IFRS Accounting Standards that bring transparency, accountability and efficiency to financial markets around the world.

3. Attendees included International Accounting Standards Board (IASB) members Tadeu Cendon and Jianqiao Lu, IASB technical staff and delegates from Nepal.

4. Tadeu Cendon chaired the meeting.

5. Tadeu Cendon welcomed EEG members and observers to the meeting and expressed appreciation for the efforts of:

   - the China Accounting Standards Committee in assisting in the operation of the EEG liaison office and in hosting the EEG meeting; and
   - the Accounting Regulatory Department of the Ministry of Finance, China, and the People's Government of Shanxi Province, China, in hosting the EEG meeting.

6. Mr Wei Wu, Executive Vice Governor, the People's Government of Shanxi Province, China, and Mr Huihao Shu, the EEG Vice-Chair, Director-General, Accounting Regulatory Department of the Ministry of Finance, China, delivered the introductory address and welcomed the EEG meeting delegates.

27th EEG meeting agenda

7. Agenda topics were:

   - Climate-related and Other Uncertainties in the Financial Statements;
   - Power Purchase Agreements;
   - Provisions—Targeted Improvements;
   - Amendments to the Classification and Measurement of Financial Instruments;

- Pollutant Pricing Mechanisms;
- Accounting for Data Resources;
- Going Concern Uncertainties;
- Country profile—Nepal;
- Update on IASB activities;
- Post-implementation Reviews of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments; and
- Business Combinations—Disclosures, Goodwill and Impairment.

The agenda papers for the meeting are available on the IFRS Foundation's website: https://www.ifrs.org/news-and-events/calendar/2024/may/emerging-economies-group/.

Climate-related and Other Uncertainties in the Financial Statements

8. The purpose of this session was to provide EEG members with:

   (a) an update on the project on Climate-related and Other Uncertainties in the Financial Statements; and

   (b) an opportunity to ask questions and share developments in their jurisdictions.

9. Jianqiao Lu provided an update on the project and asked members to share:

   (a) any developments in their jurisdictions related to reporting the effects of climate-related and other uncertainties in the financial statements; and

   (b) any questions or comments on the forthcoming exposure draft or on other actions related to the project.

Jurisdictional developments

10. Members shared developments in their jurisdictions related to reporting the effects of climate-related and other uncertainties in the financial statements. These developments include various actions to improve the accessibility of the IASB's educational material on the effects of climate-related matters on financial statements.

11. Some members also shared developments in their jurisdictions related to sustainability disclosures in general.

Comments on the forthcoming exposure draft

12. Members broadly supported (or did not object to) the IASB's approach to developing examples to illustrate how to apply the requirements in IFRS Accounting Standards to report

the effects of climate-related and other uncertainties in the financial statements. However, a few members expressed concerns—for example:

(a) a few members questioned how an entity would apply the disaggregation principles illustrated in Example 8 in circumstances in which information about property, plant and equipment could be disaggregated based on other dissimilar characteristics;[1]

(b) one member cautioned that adding too many illustrative examples could undermine the principle-based nature of the Standards; and

(c) another member said the prospective illustrative examples could lead to the correction of errors if, for example, an entity had not reflected climate-related uncertainties in the recognition and measurement of assets and liabilities.

13. Members expressed mixed views about the IASB's decision to include the examples as illustrative examples accompanying IFRS Accounting Standards. In particular:

(a) some members said that including the examples as part of the Standards would make the examples more accessible. They said illustrative examples that accompany, but are not part of, the Standards are not translated or endorsed in some jurisdictions.

(b) one member said they would prefer the IASB to publish the examples as educational materials to allow it more flexibility in updating their content.

14. A few members commented on the IASB's proposal to develop examples that illustrate the application of specific requirements (stand-alone examples). Some of these members said they would prefer examples that walk through requirements in several IFRS Accounting Standards (walk-through examples) instead of stand-alone examples. Others said that both approaches might be beneficial depending on which requirement or requirements the example is illustrating.

15. One member suggested that the IASB explain, in the examples, when requirements in IFRS Accounting Standards are consistent with those in IFRS Sustainability Disclosure Standards. In doing so, the IASB would facilitate connectivity between the work of the IASB and the that of the International Sustainability Standards Board (ISSB). This member said it would also be helpful for the IASB and ISSB to develop an example illustrating the disclosures that an

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[1] See slide 20 of Agenda Paper 1 for this meeting for an explanation of the objective of Example 8.

entity might prepare when applying both sets of Standards, including illustrating how an entity might use cross-references.

Other actions

16. Members supported (or did not object to) the IASB's other actions related to this project. In particular, some members supported the IASB's proposal to publish an article about the objective, boundaries and audience of financial statements and how sustainability disclosures can complement them.

Next steps

17. The IASB expects to publish the exposure draft in July 2024. The IASB will consider input from members together with feedback on the exposure draft.

Power Purchase Agreements

18. The purpose of this session was to provide members with an overview of the Exposure Draft *Contracts for Renewable Electricity* and to seek their preliminary views on the proposals in the Exposure Draft. In particular, IASB technical staff sought members' views on whether the proposals resolve the application questions that have been received regarding power purchase agreements.

19. Five members pointed out that in their jurisdictions the contracts and markets described in the proposals are not prevalent and therefore the accounting challenges the proposals aim to resolve are not prevalent either.

20. Two members said that they would prefer the IASB to take a more principle-based approach to proposing changes to the own-use exception. These members also pointed out that the changes to the requirements for cash flow hedging could have significant unintended consequences. Therefore, one member suggested the IASB refer to the proposals for hedge accounting in the post-implementation review (PIR) of the hedge accounting requirements of IFRS 9 in deciding whether to expand these requirements.

21. One member asked how the proposals would be applied if short-term energy storage solutions became available. The member also asked how to interpret the term 'reasonable time' in connection with repurchasing sold electricity and whether continuous assessment of the own-use exception would be required. This member also requested that the IASB provide more quantitative information in the form of illustrative examples.

22. Regarding the disclosure requirements, two members agreed that additional disclosures are necessary, with one member mentioning that these requirements could be significant in their jurisdiction.

23. One member agreed with the dissenting view of Messrs Mackenzie and Uhl, stating that it is unclear why the IASB permits these types of contracts to be treated differently to other fixed-price contracts.

Next step

24. The IASB will consider the feedback from comment letters in its next meetings.

Provisions—Targeted Improvements

25. The purpose of this session was to ask members for their views:

  (a) on whether the Agenda Decision Climate-related Commitments provides them with the necessary guidance to apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the types of net zero commitments they see in practice; and

  (b) on the IASB's proposals for targeted improvements to IAS 37.

Agenda Decision *Climate-related Commitments*

26. Several members said they agree with the Agenda Decision *Climate-related Commitments*. They said the Agenda Decision reflects the principles and requirements in IAS 37 and would provide useful guidance for entities applying IAS 37 to net zero commitments.

Proposed targeted improvements to IAS 37

27. Several members said they agree with the proposed amendments to the 'present obligation' criterion for recognising a provision. In particular:

  (a) three members agreed with the proposal to withdraw IFRIC 21 *Levies*. Members said they have never viewed the information resulting from applying IFRIC 21 as useful—especially the information in interim financial statements. Furthermore, in their view, IFRIC 21 is inconsistent with the principles and requirements in IAS 37 and IAS 34 *Interim Financial Reporting*.

  (b) some members agreed with the proposal to align the definition of a liability and the supporting requirements in IAS 37 with those in the *Conceptual Framework*. One member said this alignment would enhance consistency among IFRS Accounting Standards.

(c) some members agreed that the proposals would make requirements in IAS 37 clearer.

28. Some members expressed concerns about aspects of the proposals:

(a) one member thought the proposed amendments to the guidance on the meaning of legal obligation would muddle the concepts of legal and constructive obligations. In the member's view, a legal obligation exists only if that obligation is enforceable in a court. Another member questioned the implications for climate-related legal cases, highlighting recent cases that may set a precedent for future cases.

(b) some members questioned aspects of the new terminology, namely:

(i) whether the proposed term 'no practical ability to avoid' is as clear as the existing term 'no realistic alternative';

(ii) how the term 'action' used in the timing criterion relates to the term 'past event'—the term 'past event' explains clearly when an entity has an obligation for decommissioning and environmental damage costs; and

(iii) why the word 'significantly' has been included in the statement that an entity has an obligation to discharge a responsibility only if the consequences of not discharging the responsibility are significantly more adverse than the consequences of settling it.

(c) four members expressed concern about the proposed requirements for threshold-triggered costs. They pointed out the challenging judgements and catch-up adjustments that entities would need to make, and the cost and complexity that would result. Members suggested the IASB:

(i) provide further guidance—for example, for situations in which it is uncertain whether an entity's activities will exceed the relevant threshold; and

(ii) consider potential unintended consequences of the requirements and carry out a cost–benefit analysis.

(d) one member suggested using existing terminology for the three conditions in the present obligation criterion. Another said any new terminology should be clearly defined.

(e) one member cautioned against relying too heavily on illustrative examples.

29. In response to questions, staff confirmed that the proposals would not change the conclusions of the two recent agenda decisions: *Negative Low Emission Vehicle Credits* and *Climate-related Commitments*.

Next step

30. The IASB will consider the feedback from members and other stakeholders as it finalises its draft proposals for public comment. It aims to publish an exposure draft in the fourth quarter of 2024.

Amendments to the Classification and Measurement of Financial Instruments

31. The purpose of this session was:

    (a) to provide members an overview of *Amendments to the Classification and Measurement of Financial Instruments*, issued in May 2024, and explain how these amendments are related to the topic of climate risk in the financial statements; and

    (b) to ask members if they have any comments or questions on the amendments.

32. Staff provided an overview of the amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosure*. Staff highlighted the clarifying amendments that the IASB has made to address questions regarding the classification of financial instruments with features linked to achieving climate-related or similar targets.

33. Members reported that stakeholders in their jurisdictions support these amendments, but have requested further explanation of some aspects of the amendments.

Pollutant Pricing Mechanisms

34. The purpose of this session was:

    (a) to provide members with an update on horizon-scanning activities in relation to pollutant pricing mechanisms;

    (b) to seek feedback from members on the prevalence of pollutant pricing mechanisms in their jurisdictions; and

    (c) to ask members for their views on whether the IASB should prioritise a project on this topic.

35. Many members said their jurisdictions have compliance markets, and voluntary markets are increasing.

36. Some members said their jurisdictions are starting to introduce compliance markets, but they are not significant at this time.

37. Most members who commented said they would like the IASB to prioritise a project on pollutant pricing mechanisms because the prevalence and significance of pollutant pricing mechanisms are increasing and there is diversity in accounting for these schemes.

38. One member commented on the connection between a potential project on pollutant pricing mechanisms and the IFRS Sustainability Disclosure Standards, saying that as jurisdictions consult on adopting IFRS Sustainability Disclosure Standards, the need for accounting requirements for these mechanisms might increase.

39. One member expressed support for the IASB starting a project on pollutant pricing mechanisms, but suggested that the IASB prioritise its projects on intangible assets and statement of cash flows.

40. A few members stated that they do not consider a project on pollutant pricing mechanisms to be a priority at this time.

Next step

42. The IASB will decide whether to prioritise a project on pollutant pricing mechanisms.

Accounting for data resources

43. The representative from the Accounting Regulatory Department of the Ministry of Finance, China, introduced the members to the provisions on accounting for data resources that became effective in the Chinese GAAP on 1 January 2024.

44. The recognition and measurement requirements in the local accounting rules are aligned with the requirements in IAS 38 *Intangible Assets*, but the local rules require further disclosure of information about data resources.

45. Participants asked clarifying questions and shared their own perspectives.

Going concern uncertainties

46. The delegation from the Mexican Financial Reporting Standards Board (CINIF), consisting of the president and a member, introduced the forthcoming Mexican accounting standard that will provide guidance with respect to:

    (a) the disclosures required when going concern first becomes an issue; and

    (b) the basis of accounting to use once an entity concludes it is no longer a going concern.

47. Participants asked clarifying questions and shared their own perspectives.

Country profile—Nepal

48. Representative from Nepal shared some of the implementation and application issues that they face in applying the IFRS Accounting Standards in their jurisdiction.

Update on IASB activities

49. Tadeu Cendon and Jianqiao Lu presented an update on the IASB's technical work and asked members if they had any questions on the IASB's activities and work plan.

50. Regarding the project on Intangible Assets, one member supported a phased approach to the project and another member supported an 'all-in-one' approach. Three other members supported an early evaluation approach on the grounds that if a phased approach were taken, the IASB might need to reconsider disclosure requirements later in the project, which would be an unnecessary duplication of effort. One other member supported either an early evaluation or a phased approach, pointing out that they need to survey stakeholders to finalise their preferences.

51. One member said that the project on Intangible Assets could have overlaps with the project on Pollutant Pricing Mechanisms if the IASB decides to add the latter to its work plan. That member also said that data resources have a unique nature compared to other intangible assets and should be approached separately.

Post-implementation Reviews of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*

PIR of IFRS 15

52. The purpose of this session was to provide updates and seek members' views on the IASB's PIR of IFRS 15 *Revenue from Contracts with Customers*.

53. Staff presented an overview of the IASB's discussions on the project.

54. A few members said that application challenges remain. For example, entities face challenges related to principal versus agent determinations, licensing arrangements, the notion of 'distinct good or service' in identifying performance obligations, sales-based taxes, consideration payable to customers and the timing of revenue recognition when an entity has a call option.

55. A few members suggested the IASB take more urgent action on application challenges related to principal versus agent determinations—by providing illustrative examples, additional indicators and/or educational material such as flowcharts or decision trees—instead of waiting until the next agenda consultation to consider the matter.

PIR of IFRS 9

56. The purpose of this session was to provide members with:

    (a) an overview of the project and the feedback in response to the Request for Information *Post-implementation Review—IFRS 9* Financial Instruments*—Impairment*; and

    (b) a summary of the IASB's decisions in response to that feedback.

57. Staff presented an overview of the IASB's discussions on the project.

58. Two members reported challenges in measuring expected credit losses for some financial instruments such as trade receivables between related parties. They said such challenges arise because of the lack of historical and forward-looking information for the purposes of measuring expected credit losses for these instruments. They acknowledged the IASB's reasons for deciding to take no action in response to feedback on this area, but nonetheless said that application guidance or illustrative examples would have been helpful.

59. Similarly, one member reported that entities determine significant increase in credit risk in diverse ways and said that if the IASB had decided to provide application guidance, it might have supported greater consistency in practice.

60. One member reported that the information that entities disclose about their credit risk exposures varies in quality and granularity. The member therefore welcomed the IASB's project to make targeted improvements to the credit risk disclosure requirements in IFRS 7.

61. Acknowledging the IASB's decision to consider matters related to financial guarantee contracts as part of its next agenda consultation, two members suggested the IASB:

    (a) provide guidance for assessing whether a financial guarantee contract held is part of the contractual terms of a financial instrument; and

    (b) clarify the intersection between requirements in IFRS 9 and those in IFRS 17 *Insurance Contracts* relating to accounting for financial guarantee contracts, including the accounting for a guarantee over a loan commitment.

PIR process

62. Two members said some of the analyses in the IASB's staff papers on this project help to provide a better understanding of the requirements and how they work together. They suggested the IASB explore ways to make such analyses more accessible to stakeholders, such as by including them in the project summary and feedback statement.

63. Two members said that the IASB's approach to responding to the matters raised in a PIR could be improved. They suggested the IASB lower the threshold for taking action on matters identified in a PIR.

Next steps

64. The IASB will consider comments from members alongside the tentative decisions made at the IASB meetings to conclude the PIRs of IFRS 15 and IFRS 9.

65. The IASB will publish the project summaries and feedback statements in the third quarter of 2024.

Business Combinations—Disclosures, Goodwill and Impairment

66. The purpose of this session was:

    (a) to explain the proposals in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*; and

(b) to seek EEG members' views on the proposals.

67. Staff presented an overview of the proposed amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* as set out in the Exposure Draft.

Proposed amendments to IFRS 3

68. Many members said the proposed threshold of 10% of the acquiree's operating profit or loss, revenue or assets acquired (including goodwill) might be too low to determine whether a business combination is strategic. They said this threshold might capture business combinations considered as non-strategic. Some members said operating profit might not be a suitable threshold as it can be volatile or low.

69. One member said estimated synergies might change after the acquisition-date disclosure; therefore, disclosure might be challenging in later years. In particular, smaller listed companies might not have enough resources to monitor synergies. Staff explained that the proposed requirement to disclose information about expected synergies would apply only in the year of acquisition. An entity would not be required to disclose information in later years about whether those synergies have been achieved, unless achieving synergies is an acquisition-date key objective for a strategic business combination.

70. Regarding the proposed exemption:

(a) some members said the exemption might be challenging to apply. One member said that the exemption should not be extended to other situations; however, another member requested it be expanded to exempt disclosure if an entity has already disclosed the information outside the financial statements.

(b) one member said the exemption would be widely applied, and entities could choose not to disclose information.

(c) one member said the exemption might be challenging to interpret and requested application guidance on how to apply it.

Proposed amendments to IAS 36

71. Some members said the proposal to remove the constraint on future restructurings and asset enhancements in calculating value in use might increase management over-optimism. Some members said the proposal wouldn't reflect the current condition of a cash-generating unit. However, one member agreed with the proposed amendment.

72. Some members agreed with the proposed clarifications on the level at which goodwill is allocated. One of these members said an entity should not be required to reassess the level at which goodwill from historical business combinations was allocated. Staff explained that the entity would be required to apply the proposed requirements to allocate goodwill to all future impairment tests (regardless of whether the goodwill arose before the proposed amendments were implemented).

73. Many members agreed with the proposal to remove the requirement for an entity to use pre-tax cash flows and pre-tax discount rates to calculate value in use.

Next step

74. The IASB will discuss the feedback on the Exposure Draft from all stakeholders.

EEG meetings in 2024–2025

75. The 28th EEG meeting in the second half of 2024 and the 29th EEG meeting in the first half of 2025 will be held by videoconference.

76. The 28th EEG meeting will be held on 17–18 December 2024.

77. The Korea Accounting Standards Board confirmed its willingness to host the 30th EEG meeting in the second half of 2025 in Korea.