Report of the Emerging Economies Group Meeting

2–3 December 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 22nd EEG meeting, held via remote participation, on 2–3 December 2021.

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

22nd EEG meeting agenda

Agenda topics included:

- Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures;
- Equity Method;
- Update on sustainability-related reporting;
- Post-implementation Review of IFRS 9—Classification and Measurement; and
- Update on IASB activities.

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Further information about the Emerging Economies Group is available on the IFRS Foundation website

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, IASB member, welcomed the EEG members to the fourth virtual meeting of the EEG and thanked the Chinese Ministry of Finance for providing the EEG secretariat.

Subsidiaries without Public Accountability: Disclosures

The aim of this session was for EEG members to provide feedback on the proposals in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* published by the IASB in July 2021. Feedback from EEG members was particularly sought on the scope of the proposed IFRS Standard (draft IFRS Standard) in the Exposure Draft and the costs and benefits of the proposals.

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

Scope

The draft IFRS Standard would permit subsidiaries without public accountability that have a parent—intermediate or ultimate—that produces consolidated financial statements complying with IFRS Standards to apply IFRS Standards with reduced disclosure requirements in their financial statements. EEG members' views varied on the proposed scope of the draft IFRS Standard.

Some EEG members agreed with the proposed scope of the draft IFRS Standard. One EEG member said the proposed scope is reasonable because, in the member's jurisdiction, the main users of subsidiaries' financial statements are holding or parent companies. Another EEG member said that stakeholders in the member's jurisdiction generally agree with the proposed scope, with the condition that applying the draft IFRS Standard remains optional.

Some EEG members were of the view that the scope of the draft IFRS Standard should be extended to all entities without public accountability. One EEG member questioned why the proposed scope was not extended to all entities without public accountability because these disclosures are suitable for all such entities.

One EEG member suggested that the scope of the draft IFRS Standard should be determined by national regulators. The EEG member suggested that regulators are best positioned to assess the costs and benefits of endorsing the draft IFRS Standard and determine who should apply the draft IFRS Standard in the jurisdiction. In response, the staff acknowledged that, to develop the content of any future IFRS Standard, the IASB needs to understand the information required by users of financial statements. The staff also acknowledged that not all jurisdictions have an endorsement or similar process.

Some EEG members said that the IASB should clarify the description of 'public accountability' used in the Exposure Draft.

Some EEG members asked how the jurisdictional profiles might be affected if the draft IFRS Standard is not adopted. The staff explained that the jurisdictional profiles are maintained by the Trustees of the IFRS Foundation.

Cost–benefit assessment

Some EEG members raised concerns that the benefits of applying the draft IFRS Standard may be limited. These EEG members said subsidiaries in their jurisdiction are applying IFRS Standards and are providing full disclosures. Therefore, stakeholders are concerned about loss of information if the draft IFRS Standard is applied. Similarly, another EEG member said disclosures made at the subsidiary level are important—especially when the parent entity is an investment holding entity.

One EEG member shared that, in the member's jurisdiction, most eligible subsidiaries apply IFRS Standards, including their disclosure requirements. Parent companies welcome the proposals and said they should reduce costs.

One EEG member said that the proposals provide an opportunity for parent companies to streamline reporting and may encourage more entities to apply IFRS Standards. Nevertheless, the EEG member commented that the draft IFRS Standard should retain the terms and language in the *IFRS for SMEs* Standard, rather than be updated to align with IFRS Standards. The staff clarified that the terms and language were updated to align with IFRS Standards because the draft IFRS Standard, if finalised, would be part of IFRS Standards.

Structure of the draft IFRS Standard

The draft IFRS Standard includes footnotes referring to disclosure requirements in other IFRS Standards that remain applicable. Some EEG members raised concerns that the footnotes may mislead preparers. One EEG member suggested that applicable disclosure requirements from other IFRS Standards be included as separate paragraphs within the relevant sub-heading of the draft IFRS Standard. Similarly, the EEG member said that Appendix A to the draft IFRS Standard—which sets out disclosure requirements in IFRS Standards to be replaced by the draft IFRS Standard—should be incorporated within each section of the draft IFRS Standard.

One EEG member also suggested that the disclosure requirements could be incorporated within each IFRS Standard, rather than presented as a separate IFRS Standard. This member said incorporating the disclosure requirements within each IFRS Standard would eliminate the issue of endorsing the draft IFRS Standard.

Equity Method

This session aimed to provide EEG members with an update on the IASB's Equity Method research project, including the IASB's next step—to research the implications of differences between the principles in IAS 28 *Investments in Associates and Joint Ventures* and those in other IFRS Standards—differences resulting from changes made by the IASB's 2008 Business Combinations project and 2011 Consolidation project. EEG members were also asked for their views on application questions identified within the project's scope.

The staff provided the update.

Interaction of the requirements of IAS 28 with the Business Combinations (2008) and Consolidation (2011) projects

Three EEG members commented on the interaction of the requirements of IAS 28 with the Business Combinations and Consolidation projects.

One EEG member commented that IAS 28 is inconsistent with aspects of IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements*, despite IAS 28 stating that many procedures appropriate for the application of the equity method are similar to the consolidation procedures. As an example, the EEG member said IAS 28 does not include requirements on accounting for changes in ownership without a change in significant influence, whereas IFRS 10 includes requirements for changes in ownership that do not result in a loss of control. The EEG member agreed that the application questions identified are relevant, but in the EEG member's view, the IASB should clarify whether the equity method is a one-line consolidation, a measurement basis or a hybrid approach before considering the interaction of IAS 28 with the other IFRS Standards.

Another EEG member noted an inconsistency between consolidated financial statements and the parent's separate financial statements when the parent applies the equity method to subsidiaries. The EEG member said that applying the equity method, when the parent's share of losses of an investment exceeds the cost, the recognition of losses is discontinued. However, in its consolidated financial statements the parent continues to recognise the losses.

One EEG member asked whether the scope restriction of IFRS 3 for business combinations between entities under common control extends to interests in associates. The EEG member said views vary in the member's jurisdiction.

Application questions within the scope of the project

Some EEG members provided feedback on the application questions within the scope of the project.

One EEG member confirmed that the application question on dilution of the investor's interest is relevant. The EEG member noted diversity in practice in the member's jurisdiction in accounting for these transactions and recommended the IASB clarify whether gains and losses resulting from dilutions are recognised in profit or loss, other comprehensive income, or equity. The EEG member also confirmed the relevance of the application question on recognition of deferred tax on basis differences at the date significant influence is obtained.

Another EEG member expressed concern that IAS 28 does not include requirements for transactions between an investor and its associate from the associate's perspective. The EEG member said the IASB needs to clarify the accounting treatment in the associate's financial statements for a transaction in which the associate receives assets from the investor in exchange for equity instruments.

Application questions outside the scope of the project

Some EEG members shared other questions about applying the equity method in their jurisdictions. The staff said application questions with recurring themes outside the project scope will be brought to the IASB's attention at a future IASB meeting.

Two EEG members said the project should clarify the ownership interests in an associate that are subject to the requirements in IAS 28. The EEG members noted that the treatment is unclear for instruments such as convertible bonds and redeemable shares.

Update on sustainability-related reporting

This session aimed to update EEG members on the IFRS Foundation project on sustainability-related reporting and to seek advice about how to best involve emerging economies in the work of the International Sustainability Standards Board (ISSB).

The staff provided the update following the establishment of the ISSB on 3 November 2021 at the COP 26 Climate Summit in Glasgow.

In response to several queries from EEG members, the staff clarified that:

(a) various advisory bodies will be established to support the work of the ISSB, including a specialist body to ensure jurisdictional input into standard-setting. Part of the remit of this body will be to consider whether the ISSB should develop a comprehensive global baseline, which is interoperable with jurisdictional initiatives.

(b) the Trustees of the IFRS Foundation have acknowledged the importance of having emerging economies involved in standard-setting from the beginning, which the G20 Sustainable Finance Working Group reiterated.

(c) the Trustees were at an advanced stage in their nominations process to establish the leadership of the new board, including a Chair and Vice-Chair/s, and the remaining board members will be nominated early in 2022.

(d) the Chair and Vice-Chair/s are able to publish exposure drafts on climate-related disclosures, general requirements for sustainability-related disclosures and an agenda consultation before the ISSB is quorate, according to an option provided in the IFRS Foundation *Constitution*. Thus, the ISSB's initial exposure drafts might be published in Q1 2022. The International Organization of Securities Commissions and other key international bodies have acknowledged the urgent need for a climate-related disclosure standard as early as possible.

Some EEG members offered the group's ongoing support of the ISSB's work and welcomed the staff to provide a further update at the next meeting.

Post-implementation Review of IFRS 9—Classification and Measurement

This session aimed to give EEG members an opportunity to provide feedback on the topics included in the Request for Information *Post-implementation Review of IFRS 9—Classification and Measurement*, published by the IASB in September 2021 and open for comment until 28 January 2022.

The staff provided an update on the project. One EEG member shared the experience of applying the classification and measurement requirements of IFRS 9 in the member's jurisdiction.

Business model for managing financial assets

EEG members said that, generally, the business model assessment is working as the IASB intended. Some EEG members said that, because an entity is required to apply judgement to determine the business model, several questions have arisen in practice. A small number of EEG members suggested the IASB consider providing additional application guidance and examples in response to those questions, which related to:

(a) how to distinguish between changes in a business model and changes in management's intention. This question has arisen in practice relating to, for example, changes in the level of sales of financial assets in a held-to-collect business model during the covid-19 pandemic.

(b) how to assess whether sales are 'significant' or 'infrequent' when assessing the business model.

Contractual cash flow characteristics

EEG members said that, generally, the assessment of whether cash flows are solely payments of principal and interest (SPPI) is working as the IASB intended.

Regarding financial instruments with sustainability-linked features, two EEG members shared feedback from stakeholders in their jurisdictions, including that:

(a) the number of financial instruments with sustainability-linked features is increasing;

(b) stakeholders have differing views as to how to assess whether financial instruments with sustainability-linked features have SPPI cash flows, and therefore some stakeholders think additional application guidance may be needed; and

(c) stakeholders have questions about financial instruments with sustainability-linked features that have SPPI cash flows and are measured at amortised cost—regarding how to determine the effective interest rate and account for subsequent changes in estimates.

Regarding contractually linked instruments, one EEG member said that the scope of the contractually linked instruments' requirements needs to be clarified. The member noted diversity in practice, for example, diversity in what stakeholders consider to be 'a tranche' and 'credit risk concentration'.

Another EEG member raised two additional questions relating to assessing contractual cash flow characteristics:

(a) whether beneficiary interests in a trust that are composed entirely of debt instruments should be treated as debt instruments or equity instruments; and

(b) whether the fair value of prepayment feature is relevant to assessing the cash flow characteristics of a callable bond.

Equity instruments and other comprehensive income

One EEG member said the election to present fair value changes in other comprehensive income is an important topic for insurance entities in the member's jurisdiction. Many insurance entities will apply IFRS 9 for the first time when they apply IFRS 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2023).

Modifications to contractual cash flows

Some EEG members shared initial feedback on modifications to contractual cash flows from the stakeholders in their jurisdiction:

(a) the modifications are a high-priority topic for some stakeholders.

(b) the modification requirements work well in normal circumstances. However, questions have arisen in considering government intervention during the covid-19 pandemic. For example, whether modifications are limited to changes made by parties to the contract.

(c) questions have arisen relating to determining whether a modification leads to derecognition. For example, whether the '10% test' for financial liabilities could be applied to financial assets.

Amortised cost and the effective interest method

One EEG member said a question has arisen relating to the scope of the requirements in paragraphs B5.4.5 and B5.4.6 of IFRS 9. The member suggested that the meaning of some of the terms used in those paragraphs—such as 'market rate'—could be clarified.

IFRS 9 classification and measurement requirements—practical experience in Brazil

One EEG member shared the experience of implementing the classification and measurement requirements in IFRS 9 in Brazil. The member said that:

(a) applying IFRS 9 requires regular interaction between an entity's management, finance department and other business areas.

(b) some requirements in IFRS 9 led to entities changing systems.

(c) practical challenges arose when entities needed to analyse high volumes of information to prepare for applying IFRS 9 (for example, analysing terms of contracts).

(d) the effect of applying the classification and measurement requirements was insignificant. Applying the impairment requirements in IFRS 9 was a more substantial change for banks in the member's jurisdiction.

Update on IASB Activities

This session aimed to update EEG members on the IASB's activities, including the IASB's recent tentative decisions on the second comprehensive review of the *IFRS for SMEs* Standard.

Jianqiao Lu, IASB member, provided the update.

Next meeting

The next EEG meeting will be held on 16–17 May 2022.