Report of the Emerging Economies Group Meeting

16–17 May 2022

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 Accounting Standards.

This Report provides a summary of the 23rd EEG meeting, held in hybrid form: at the IFRS Foundation Office in London and via remote participation, on 16–17 May 2022.

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

23rd EEG meeting agenda

Agenda topics included:

- Update on the work of the International Sustainability Standards Board (ISSB);
- ISSB Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*;
- ISSB Exposure Draft IFRS S2 *Climate-related Disclosures*;
- Lack of Exchangeability (Amendments to IAS 21);
- IAS 41 *Agriculture*; and
- Update on IASB and IFRS Interpretations Committee 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 first hybrid meeting of the EEG and thanked the Chinese Ministry of Finance for providing the EEG secretariat.

Update on the work of the International Sustainability Standards Board

The staff provided an update on the work of the International Sustainability Standards Board (ISSB) since the December 2021 EEG meeting.

On 31 March 2022, the ISSB published its first two exposure drafts—Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft IFRS S2 *Climate-related Disclosures*. The exposure drafts are open for public comment for a 120-day period that ends on 29 July 2022.

Two sessions aimed to provide EEG members with an overview of the exposure drafts and to seek input and answer questions related to the proposed requirements.

ISSB Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Some EEG members provided feedback on the requirement that financial statements and sustainability disclosures be published at the same time. The members said that, currently, entities in their jurisdictions provide sustainability-related disclosures a few months after publishing financial statements and that the proposed requirement could prove burdensome to preparers.

Some EEG members discussed the effective date of the proposals and asked whether the ISSB would provide exceptions or adoption reliefs. One EEG member suggested the ISSB provide a sufficient transition period for the first two IFRS Sustainability Disclosure Standards to allow jurisdictions to set up processes for the adoption of the Standards. Some EEG members also asked about the ISSB's current thinking around a simplified IFRS S1 and IFRS S2 for SMEs.

One EEG member expressed concern about the term enterprise value, which was defined as the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt. The member said enterprise value is a complex concept.

Two EEG members said it might prove difficult to ensure the comparability and completeness of information, and stressed that sustainability-related information must be auditable.

ISSB Exposure Draft IFRS S2 *Climate-related Disclosures*

Some EEG members discussed quantifying the current and anticipated effects of climate-related risks and opportunities, and the need to ensure that entities have time to develop processes that allow for relevant and faithfully represented disclosures. Members raised similar concerns about the disclosures on Scope 3 Greenhouse Gas emissions and scenario analysis.

Some EEG members discussed the importance of skills and asked who would be responsible for preparing climate-related disclosures. One member raised the topic of governance disclosures, which provide transparency on governance processes, controls and the procedures for monitoring and managing climate-related risks and opportunities, including skills and competencies. The member said governance disclosures could pose a challenge, especially in markets with limited experience in preparing such disclosures.

One EEG member raised concerns about the reference to the Greenhouse Gas protocol, which is not widely used in the member's jurisdiction, and to some of the more US-centric requirements derived from SASB standards, which are included in Appendix B to [draft] IFRS S2. The member said that, although efforts were made to enhance the international applicability of these requirements, more work is required to identify and amend a number of proposed requirements that may not be practical from a global perspective. The member also raised concerns about some of the topics in Appendix B that the member suggested may exceed the scope of the Climate Standard.

Lack of Exchangeability (Amendments to IAS 21)

This session aimed to give EEG members an opportunity to provide views on preliminary staff suggestions on possible ways forward on the project. The staff provided an update on the project and explained the possible ways forward.

Holistic consideration of factors in assessing exchangeability

EEG members agreed with the staff's suggested way forward—an entity needs to consider holistically all factors in assessing exchangeability. A few EEG members suggested adding examples to illustrate the assessment. One EEG member suggested providing indicators or factors to help entities assess exchangeability. This member cautioned that examples could be incorrectly viewed as providing 'bright lines'.

Level of assessment of exchangeability

EEG members generally agreed with the staff's suggested way forward—the assessment of exchangeability should be at an entity level. A few EEG members said it might be beneficial to state that entities in a jurisdiction experiencing similar exchangeability situations would be expected to reach the same conclusions.

Use of unofficial rates

EEG members generally agreed with the staff's suggested way forward—to clarify that unofficial rates cannot be used in assessing exchangeability between two currencies but can be used as a starting point for estimating the spot exchange rate. Some EEG members commented on the challenges in referring to unofficial rates in IFRS Accounting Standards.

Estimated rates meeting the conditions in paragraph 19A of the Exposure Draft *Lack of Exchangeability* published in April 2021

EEG members generally agreed with the staff's suggested way forward—to amend the proposal in paragraph 19A of the Exposure Draft to require an entity to best reflect, rather than meet, all the conditions in paragraph 19A. A few EEG members suggested changing conditions to indicators or factors an entity considers. One EEG member asked whether 'best reflect' requires an entity to meet all the conditions in paragraph 19A. The staff clarified that the proposal is for an entity to make its best efforts to meet the conditions, but it would not be a requirement to meet the conditions in paragraph 19A.

Observable rates in paragraph 19B of the Exposure Draft

One EEG member agreed with the staff's suggested way forward—to continue to permit, but not require, the use of observable rates. This member suggested incorporating some of the content in paragraph BC19 of the Basis for Conclusions on the Exposure Draft into the requirements. One EEG member said it is important to be consistent with the approach in IFRS 13 *Fair Value Measurement*. Another EEG member suggested the amendments prioritise observable rates and observed that entities that cannot access foreign currency should provide disclosures about liquidity risk in accordance with IFRS 7 *Financial Instruments: Disclosures*.

Reference rates, examples and application guidance

EEG members had mixed views on the staff's suggested way forward—to reaffirm reasons in the Basis for Conclusions for not adding examples and application guidance on estimation techniques and approaches. Some EEG members encouraged the IASB to add examples and application guidance. In response to an IASB member suggestion, a few EEG members expressed support for including examples in educational materials rather than in the Standard, and one of those members cautioned that providing examples in the Standard could be incorrectly viewed as providing 'bright lines'. One EEG member expressed a preference for more examples but understood the IASB's reasons for not providing them.

IAS 41 *Agriculture*

The aim of this session was to share stakeholders' experience in applying IAS 41 in South America and discuss with EEG members a suggestion to amend the Standard to require an entity:

(a) to disclose information about their agricultural performance, disaggregating information between:

(i) the changes in fair value of agricultural produce until the harvest, as a biological asset; and

(ii) the changes in the net realisable value of agricultural produce retained for sale at the optimal time, as inventory.

(b) to measure certain bearer animals (for example, breeding cattle) similarly to bearer plants. That is, to measure these bearer animals separately from the produce from those animals (for example, semen) in accordance with IAS 16 *Property, Plant and Equipment*, instead of measuring the animals in accordance with IAS 41, which applies to biological assets.

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

Disclosure of information about agricultural performance

Two EEG members agreed that disclosures of additional information about agricultural performance would be helpful. However, one member expressed concerns that the disclosures might be onerous to provide and recommended carrying out a cost–benefit analysis on implementing the suggestion.

Measuring breeding cattle

EEG members generally agreed that extending the accounting treatment of bearer plants to bearer animals should be explored further.

One EEG member suggested providing an undue cost or effort exemption so that an entity would be required to account for a bearer animal separately from the produce from the animal if the entity could measure the bearer animal and the produce separately without undue cost or effort.

One EEG member described two alternative approaches for measuring livestock that delegates discussed at the 2011 meetings of the International Forum of Accounting Standard Setters and the Asian-Oceanian Standard-Setters Group:

(a) Alternative 1—an entity would be permitted to apply IAS 16 or IAS 41 to the entire livestock, depending on the predominant use of the livestock held at the reporting date; and

(b) Alternative 2—an entity would measure the livestock depending on its business model.

One IASB member said that when the IASB developed requirements for entities to account for bearer plants separately from the produce from those plants, it concluded that measuring the fair value of bearer plants, in general, is more difficult than measuring the fair value of bearer animals because plants are attached to land.

Update on IASB and IFRS Interpretations Committee activities

This session was aimed at updating EEG members on the activities of the IASB and IFRS Interpretations Committee, including the IASB's recent tentative decisions on:

(a) the IASB work plan for 2022–2026; and

(b) the objective and scope of its Business Combinations under Common Control project.

Jianqiao Lu and Bruce Mackenzie, IASB members, provided the update.

Next meeting

The next EEG meeting will be held in Saudi Arabia in the fourth quarter of 2022.