IFRS Accounting

Meeting summary

Emerging Economies Group

Date **10-11 May 2023**

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 (NSS) from emerging economies.

Report of the Emerging Economies Group

1. This Report summarises the 25th Emerging Economies Group (EEG) virtual meeting held on 10–11 May 2023.

2. Jianqiao Lu, a member of the International Accounting Standards Board (IASB), chaired the meeting.

3. Jianqiao Lu welcomed the EEG members to the meeting and thanked the Chinese Ministry of Finance for providing the EEG secretariat.

25th EEG meeting agenda

4. Agenda topics included:

   - Amendments to Classification and Measurement of Financial Instruments;
   - Carbon Offset;
   - Climate-related Risks in Financial Statements;
   - Primary Financial Statements;
   - Subsidiaries without Public Accountability: Disclosures
   - Business Combinations under Common Control; and
   - Updates on IASB and IFRS Interpretations Committee activities.

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

Amendments to Classification and Measurement of Financial Instruments

5. IFRS Foundation staff provided EEG members with an overview of the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (the Exposure Draft), published by the IASB in March 2023.

6. The staff asked EEG members for their views on the proposals and whether they would recommend any further explanations or application guidance in specific areas.

Derecognition of financial liabilities

7. EEG members asked a few clarifying questions on paragraph B3.3.8 of the draft amendments to IFRS 9 *Financial Instruments* in the Exposure Draft, including:

    (a) whether an entity applying the election in the paragraph should derecognise the cash at the same time as derecognising the financial liability;

    (b) how the criteria for applying the election interact with the requirements in IAS 10 *Events after the Reporting Period* if some, but not all, of the criteria are met before the end of the reporting period; and

    (c) why paragraph BC26 of the Exposure Draft, in discussing the criteria for derecognising a financial liability, refers to the requirements for offsetting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation*.

Financial assets with environmental, social and governance (ESG)-linked features

8. EEG members asked the IASB to clarify the following apparent inconsistencies in the draft amendments to IFRS 9 in the Exposure Draft:

    (a) paragraph B4.1.8A states that the assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives. However, the same paragraph states that a change in contractual cash flows is inconsistent with a basic lending arrangement if it is not aligned with the magnitude of the change in basic lending risks or costs. Furthermore, paragraph B4.1.9C of IFRS 9 requires a quantitative assessment of cash flows if the time value of money element is modified.

    (b) the draft amendments to paragraph B4.1.13 propose adding the example of a loan with an interest rate adjusted if the debtor achieves a contractually specified reduction in greenhouse gas emissions. The analysis states that the cash flows on the instrument represent neither an investment in the debtor nor an exposure to the performance of specified assets. However, it is arguable that a reduction in greenhouse gases could be the result of the more efficient performance of specified assets; and

    (c) the draft amendments to paragraph B4.1.14 propose adding the example of a loan with an interest rate adjusted based on a carbon price index. The analysis states that the cash flows on the instrument are not solely payments of principal and interest. However, it is arguable that a loan that is linked to a variation in a carbon price index is a basic lending arrangement if it is common in a particular market to have such instruments.

9. EEG members also asked the IASB to provide further guidance or examples to help entities understand what is meant by terms such as ‘magnitude’ in paragraph B4.1.8A and ‘an investment in the debtor’ in paragraph B4.1.10A of the draft amendments to IFRS 9, and to help entities understand the interaction between these two paragraphs.

Disclosures

10. One EEG member suggested the IASB provides more detailed guidance on the requirement to disclose quantitative information in paragraph 20B(b) of the draft amendments to IFRS 7 *Financial Instruments: Disclosures* in the Exposure Draft.

Carbon Offset

11. Eduardo Flores, coordinator for the Comitê de Pronunciamentos Contábeis (CPC) working group on carbon offset, presented an overview of the CPC exposure draft addressing this topic.

12. The exposure draft recognises those holding carbon credits may do so for different purposes and therefore proposes requirements based on the business model for holding the carbon credit.

13. One EEG member shared that an article on how to apply IFRS Accounting Standards to carbon credits is being developed in their jurisdiction.

14. Another EEG member noted that in their jurisdiction there was general agreement that carbon credits were assets, but there were mixed views on how the asset should be classified and so carbon credits are generally presented as a separate class of asset.

15. Several EEG members encouraged the IASB to prioritise this topic, given the focus in their jurisdiction to reduce carbon emissions.

Climate-related Risks in Financial Statements

16. IFRS Foundation staff:

    (a) provided background about the maintenance project to explore whether and how companies' financial statements can provide better information about climate-related risks; and

    (b) explained that this project and the work of the International Sustainability Standards Board (ISSB) complement each other, helping investors to connect information included in different parts of general purpose financial reports.

17. EEG members provided their views on:

    (a) the nature and causes of stakeholder concerns about the reporting of climate-related risks in the financial statements and suggested possible courses of action; and

    (b) whether the IASB should consider expanding the scope of the project to cover risks in addition to those related to climate and opportunities as well as risks.

Nature and causes of stakeholder concerns and possible courses of action

18. Most EEG members who spoke said information about climate-related risks in the financial statements is a topical matter in their jurisdiction. These members expressed concerns about the reporting of those risks in the financial statements including concerns that companies:

    (a) may provide insufficient information about how climate-related risks are reflected in the financial statements, particularly when compared to information disclosed in other reports, such as in a separate sustainability disclosure report; and

    (b) seem to apply IFRS Accounting Standards to climate-related risks inconsistently, for example, when performing impairment tests, when estimating the useful life of assets and when measuring liabilities.

19. A few EEG members said stakeholders in their jurisdiction had not raised specific concerns about information on climate-related risks in the financial statements.

20. EEG members said possible causes of concerns might include:

    (a) unclear requirements and insufficient application guidance about reflecting climate-related risks in IFRS Accounting Standards. For example, some EEG members said IFRS Accounting Standards are insufficiently clear about how and when an entity should reflect the effect of climate-related risk when performing an impairment test.

(b) lack of compliance with existing requirements because of a lack of awareness or misunderstanding of these requirements. For example, one EEG member said entities might not properly apply the over-arching principles in IAS 1 *Presentation of Financial Statements* that require entities to disclose additional useful information.

21. Most members that spoke supported additional application guidance and illustrative examples. A few members said that minor amendments might be helpful, for example to update the indicators of impairment in IAS 36 *Impairment of Assets*.

22. One member observed an improvement in disclosures after the publication of the IFRS educational material in November 2020. The member suggested increasing the visibility of this existing educational material and reminding stakeholders of the over-arching principles in paragraphs 31 and 112 of IAS 1.[1]

23. Some members highlighted the importance of coordinating with the ISSB on this project.

Scope of the project

24. Members expressed mixed views on whether the scope of the project should be expanded to cover risks in addition to those related to climate:

(a) some members said the IASB should consider expanding the scope of the project to consider risks in addition to those related to climate because, in their view, this would be consistent with the principle-based nature of IFRS Accounting Standards. One member suggested the IASB develop criteria to help it decide when to amend an IFRS Accounting Standard to provide guidance on how to apply the principles in a Standard to a specific application question; and

(b) others disagreed because of concerns that widening the scope would delay any action the IASB might take to respond to concerns about the reporting of climate-related risks in the financial statements.

[1] Paragraphs 31 and 112 of IAS 1 require companies to provide additional disclosures when compliance with specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the company's financial position and performance.

25. A few members commented on whether the IASB should consider opportunities as well as risks. These members did not support expanding the scope to include opportunities. One member expressed doubts that opportunities could be reflected in financial statements.

Primary Financial Statements

26. The purpose of this session was to:

    (a) update EEG members on the Primary Financial Statements project; and

    (b) obtain input from EEG members:

        (i) on factors that the IASB should consider in determining the transition period and effective date of the forthcoming IFRS Accounting Standard *General Presentation and Disclosures*; and

        (ii) to understand the expected costs and benefits for stakeholders of the forthcoming IFRS Accounting Standard to help develop the effects analysis that will be published with the Accounting Standard.

Update on the project

27. IFRS Foundation staff updated EEG members on the project's status. The staff explained that the IASB plans to complete redeliberations this year and it will make a decision on re-exposure as a part of its due process at the end of its redeliberations. Staff also explained that webinars are planned once the redeliberations are complete and that a training session is planned for the next EEG meeting.

28. One EEG member asked for clarification on when the rebuttable presumption used in the definition of management performance measures can be applied. Staff explained that an entity can rebut the presumption if the entity can provide reasonable and supportable evidence that a subtotal of income and expenses used in an entity's public communications does not provide management's view of an aspect of the entity's financial performance. For example, when a measure is required by regulation.

29. One EEG member said that the staff recommendation included in Agenda Paper 21E for the March 2023 IASB meeting on the classification of the gain or loss on the net monetary position when an entity applies IAS 29 *Financial Reporting in Hyperinflationary Economies* should be reconsidered. Staff explained that this topic was deferred to a future IASB meeting after conducting outreach with stakeholders.

30. One EEG member asked for clarification on the classification of income and expenses from subsidiaries accounted for using the equity method when the entity applies IAS 27 *Separate Financial Statements*. Staff explained that the IASB discussed this topic in September 2022 and tentatively decided to require that an entity classifies income and expenses from subsidiaries accounted for using the equity method in the investing category. The staff added that the IASB will discuss the classification of income and expenses from associates and joint ventures accounted for using the equity method at the May 2023 IASB meeting.

Transition period and effective date

31. EEG members provided observations on:

  (a) whether the information needed to apply the new IFRS Accounting Standard is readily available, easily obtainable or would require entities to make changes to their systems and processes;

  (b) whether any entities in members' jurisdictions plan to apply the new IFRS Accounting Standard prior to the effective date; and

  (c) other factors the IASB should consider in determining the transition period and effective date of the new IFRS Accounting Standard.

Information that is likely to be readily available and easily obtainable

32. Some EEG members said that in their jurisdiction, some of the project proposals, such as presenting subtotals and some line items in the statement of profit or loss, disclosures for management-defined performance measures, and disclosure of the analysis of operating expenses by nature are already implemented in practice and therefore information related to these requirements is expected to be readily available.

Information that would require changes in systems and processes

33. One EEG member said that they expect material changes to data gathering processes will be required to classify income and expenses into categories in the statement of profit or loss as the classification requirement is new to entities in the member's jurisdiction. This member said that management performance measures are also a new concept in their jurisdiction.

Early application of the new IFRS Accounting Standard

34. One EEG member said some entities in their jurisdiction might consider early application of the new IFRS Accounting Standard because:

    (a) some of the requirements are already applied in current practice; and

    (b) entities are expected to provide more useful information to users by applying the new IFRS Accounting Standard.

35. Some other members said that they were not aware of any entities considering early application of the new IFRS Accounting Standard in their jurisdiction.

Other factors the IASB should consider in determining the transition period and effective date

36. Some EEG members said that the proposed transition period of 18-24 months seems reasonable.

37. Some EEG members said that a longer transition period would be needed. One EEG member commented that some accounting firms in their jurisdiction preferred a longer transition period of two to three years. This member also said that a few entities preferred an even longer transition period of four to five years because the proposals in the new IFRS Accounting standard are expected to impact the structure of the statement of profit or loss and they need more time to change accounting systems and processes.

38. One EEG member said that the proposed transition period is not sufficient because negotiations with regulators would be needed to change regulations to align with the new requirements. Staff offered to support stakeholders in this jurisdiction and explained that it is possible to begin working on the required changes to these regulations now and that it is not necessary to wait until the new IFRS Accounting Standard is issued.

39. One EEG member said that a longer transition period for small and medium sized entities would enable them to apply the new Accounting Standard easily. In this member's view, the expected costs of implementing the new requirements are likely to exceed the benefits.

Expected costs and benefits

40. EEG members were asked to provide their observations on:

    (a) the expected costs and benefits of the new IFRS Accounting Standard to preparers and users in their jurisdiction; and

    (b) expected and additional benefits for digital reporting.

41. EEG members had no comments on the benefits for digital reporting.

Overall benefits and costs

42. One EEG member said that the new IFRS Accounting Standard is expected to improve comparability and provide useful information. This member also said that additional research may be needed to analyse whether the expected benefits of the new IFRS Accounting Standard will exceed the costs.

Expected costs to preparers

43. One EEG member said that the expected costs to implement the requirements of the new IFRS Accounting Standard would depend on the current practice of entities.

44. One EEG member said that the costs to preparers would be lower if the regulator does not require additional information to that required by the new IFRS Accounting Standard. For example regulators might require specific disclosures based on quantitative thresholds which are not included in the new IFRS Accounting Standard. Staff suggested communicating with regulators as early as possible when conflicts with regulatory requirements are identified as the process of harmonising the requirements in the new IFRS Accounting Standard and regulatory requirements may take time to resolve.

45. One EEG member stated that costs to implement the requirements of the new IFRS Accounting Standard would be limited as information is readily available and the only additional effort for preparers would be to reorganise the information.

Relationship with the proposals for subsidiaries without public accountability

46. One EEG member asked about the relationship between the finalisation of the new IFRS Accounting Standard *General Presentation and Disclosures* with the finalisation of the new IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures.* Staff explained, assuming the new IFRS Accounting Standard for general presentation and disclosures is issued before the new IFRS Accounting Standard for subsidiaries without public accountability, the staff plan is that:

(a) references to IAS 1 *Presentation of Financial Statements* included in Exposure Draft *Subsidiaries without Public Accountability: Disclosures* will be updated to the relevant references in the new IFRS Accounting Standard for general presentation and disclosures;

(b) the IASB will issue a 'catch-up' exposure draft for subsidiaries without public accountability that will consider all changes to IFRS Accounting Standards since Exposure Draft *Subsidiaries without Public Accountability: Disclosures* was published including whether and how to reduce the disclosure requirements in the new IFRS Accounting Standard for general presentation and disclosures; and

(c) requirements in the new IFRS Accounting Standard for general presentation and disclosures will remain applicable until the amended IFRS Accounting Standard for subsidiaries without public accountability is effective.

Subsidiaries without Public Accountability: Disclosures

47. IFRS Foundation staff presented the cost and benefit analysis from the Basis for Conclusions on the Exposure Draft: *Subsidiaries without Public Accountability: Disclosures* (Exposure Draft) and additional feedback on cost and benefits from comment letters and outreach activities.

48. The staff asked EEG members their views on:

(a) the potential effects (costs and benefits) of applying the new Standard as proposed in the Exposure Draft; and

(b) whether they agree that the benefits of applying the new Standard will outweigh the costs of applying it.

49. Four EEG members agreed with the presented cost and benefit analysis and said that the benefits of applying the new Standard will outweigh the costs. The members made the following observations on cost and benefits:

(a) one EEG member said the benefits of applying the new Standard will outweigh the cost if the application of the Standard remains optional as this will allow entities to make their own assessment in deciding whether to apply the Standard.

(b) two EEG members expressed support for the project and said the new Standard will be helpful for eligible subsidiaries in their jurisdiction. One EEG member further said high initial implementation costs are expected however the ongoing benefits will outweigh the costs.

(c) one EEG member said the new Standard will maintain the usefulness of financial statements by providing disclosures tailored to the needs of users of eligible subsidiaries' financial statements.

(d) two EEG members supported the approach followed in developing the disclosure requirements in the draft Standard and said the *IFRS for SMEs* Accounting Standard is not attractive for the eligible entities due to recognition and measurement differences between the *IFRS for SMEs* Accounting Standard and full IFRS Accounting Standards.

50. Two EEG members said the benefits of applying the new Standard are reduced for eligible subsidiaries that are expected to provide additional disclosures for the parents consolidated financial statements. Another EEG member said the cost and benefit analysis will depend on the eligible subsidiary's specific circumstances such as interaction of the new Standard with local regulations.

51. Two EEG members said the scope should not be limited to subsidiaries. One EEG member further said they are developing a reduced disclosure Standard for application in their jurisdiction, albeit their proposals are applicable to all SMEs.

Business Combinations under Common Control

52. IFRS Foundation staff:

(a) provided an update on the Business Combinations under Common Control (BCUCCs) project; and

(b) asked EEG members for information on the current reporting for BCUCCs and for their views on the project direction.

Current reporting for BCUCCs

53. Six EEG members said BCUCCs are common in their jurisdiction, of which:

(a) two said both BCUCCs that affect / do not affect non-controlling shareholders of the receiving entity (NCS) are common in their jurisdiction and another said all types of BCUCCs are common (for example, BCUCCs that affect / do not affect NCS and BCUCCs by listed / unlisted entities) in their jurisdiction;

(b) two quantified the number of BCUCCs in their jurisdiction, of which:

(i) one said 100–200 listed entities undertake BCUCCs per year since 2007 (data was not available for unlisted entities); and

(ii) the other said there have been hundreds of BCUCCs in the past two years as a result of a change in tax law—these BCUCCs generally did not affect NCS; and

(c) one said BCUCCs in which the controlling party is an individual, not an entity, are common in their jurisdiction.

54. Regarding the current reporting for BCUCCs:

(a) four EEG members said entities in their jurisdiction are required to apply a book-value method to all BCUCCs;

(b) two EEG members said entities in their jurisdiction typically apply a book-value method to BCUCCs;

(c) one EEG member said their local standard was updated in 2022 to incorporate the IASB's preliminary views in the Discussion Paper *Business Combinations under Common Control*; and

(d) one EEG member said the acquisition method and a book-value method are both applied in their jurisdiction.

Project direction

55. Two EEG members suggested proceeding with option I (recognition, measurement and disclosure requirements) to resolve diversity in practice. One of these EEG members suggested proceeding with the preliminary views in the Discussion Paper, even though the outcome might not meet all users' information needs globally.

56. Two EEG members suggested proceeding with option II (disclosure-only requirements) because option I wouldn't meet user information needs globally and may not reduce diversity, of which:

(a) one said option II would help users understand the method applied and the financial effect of BCUCCs; and

(b) the other said initial outreach in their jurisdiction suggested option II would justify the resources needed.

57. If the IASB chooses option II (disclosure-only requirements):

(a) one EEG member said users in their jurisdiction had mixed views on whether disclosure of fair value information as at the acquisition date would be useful for BCUCCs reported applying a book-value method; and

(b) one EEG member said disclosure of such fair value information would not address user information needs because users would receive fair value information only as at the acquisition date.

58. One EEG member said the IASB could develop recognition and measurement requirements (option I) for the workstreams on project scope and applying the measurement methods (including disclosure) but not develop recognition and measurement requirements for the workstream on selecting the measurement method.

Update on IASB and IFRS Interpretations Committee activities

59. Jianqiao Lu, IASB member, asked EEG members if they had any questions on the activities of the IASB set out in agenda paper 7.

One member suggested the IASB considers prioritising resources on connectivity with the ISSB rather than work on non-mandatory materials.

Next meeting

60. The 26th EEG meeting will be held in the second half of 2023 in South Africa.