Meeting summary

Emerging Economies Group

Date **30–31 October 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 from emerging economies.

Meeting report and attendance

1. This report summarises the 26th Emerging Economies Group (EEG) meeting held on 30–31 October 2023 in Cape Town (South Africa).

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) member Tadeu Cendon, IASB Technical Director Riana Wiesner, IASB technical staff and delegates from Argentina, Brazil, China, India, Indonesia, Malaysia, Mexico, Saudi Arabia, South Africa, South Korea and Turkey.

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 (CASC) in assisting the operation of the EEG liaison office; and
    - the South African Institute of Chartered Accountants (SAICA) in hosting the EEG meeting.

26th EEG meeting agenda

6. Agenda topics were:
    - Primary Financial Statements;
    - Subsidiaries without Public Accountability: Disclosures;
    - Update on IASB activities;
    - Equity Method;
    - Update on hyperinflation;

- Business Combinations under Common Control; and
- Countries profile—Africa.

The agenda papers for the meeting are available on the IFRS Foundation's website: https://www.ifrs.org/news-and-events/calendar/2023/october/emerging-economies-group/.

Primary Financial Statements

7. The purpose of this session was:

   (a) to introduce the prospective IFRS Accounting Standard IFRS 18 *Presentation and Disclosures in Financial Statements*; and

   (b) to obtain input from members on:

      (i) challenges they see in implementing and endorsing IFRS 18 in their jurisdictions;

      (ii) ways jurisdictions will support stakeholders implementing IFRS 18; and

      (iii) ways the IFRS Foundation can provide implementation support to jurisdictions.

8. Tadeu Cendon and IASB technical staff presented the overview of IFRS 18.

Challenges in implementing and endorsing IFRS 18

9. Members expressed mixed views about how challenging the endorsement and implementation process would be. Some members said that the process would not be challenging because templates used in their jurisdictions are consistent with the requirements of IFRS 18. However, other members said that the implementation process would be challenging because the requirements in IFRS 18 differ from current practice and templates for financial statements used in their jurisdictions and they would need to educate stakeholders on the changes.

10. Some members said that preparers would incur significant costs to change IT and other systems to comply with the new requirements. One member said that the new requirements will be challenging for entities that are required to present more than one comparative period in their financial statements because these entities will need to implement the changes in a shorter time.

11. A few members said that training for preparers and users would be needed because of:

(a) the judgement involved in classifying income and expenses into categories in the statement of profit or loss; and

(b) the changes to classifying interest income, interest expenses and gains and losses on foreign exchange transactions.

12. A few members said that regulators would need to reassess regulatory indicators and decide whether to make changes to templates for financial statements. One member said that regulators would monitor the disclosures required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* before IFRS 18 becomes effective to understand the likely impact IFRS 18 will have on financial statements. One member said that auditors would need to update their procedures and that IFRS 18 would increase the complexity and difficulty of audits.

Ways jurisdictions will support the implementation of IFRS 18

13. Most members said that they are planning training sessions with stakeholders, including capacity building, webinars, educational sessions and round-table discussions, to educate them on the new requirements. A few members said they had already established working groups and implementation committees to conduct outreach with stakeholders and resolve any potential issues that would arise in the transition period for IFRS 18.

14. A few members said they will support stakeholders implementing IFRS 18 by:

(a) translating IFRS 18 and accompanying documents published by the IFRS Foundation into local languages to ensure accessibility and understandability;

(b) using financial statements of selected entities applying IFRS 18 to provide case studies of best practices;

(c) incorporating the new requirements into academic curricula to facilitate education about IFRS 18; and

(d) updating local GAAP to reflect the new requirements.

Ways the IFRS Foundation can provide implementation support to jurisdictions

15. Many members said that the IFRS Foundation can provide implementation support to help jurisdictions by:

(a) publishing educational material, including detailed illustrative examples;

(b) establishing a mechanism to monitor and respond to implementation issues promptly;

(c) highlighting that the requirements in IFRS 18 are applicable to interim financial statements and are required to be applied retrospectively;

(d) facilitating jurisdictions' sharing their experiences, including potential effects; and

(e) starting the post-implementation review for IFRS 18 earlier.

Next steps

16. The IASB will take account of the feedback from members as it updates its plans to support implementation and consistent application of IFRS 18.

Subsidiaries without Public Accountability: Disclosures

17. The purpose of this session was:

(a) to introduce the prospective IFRS Standard;

(b) to give members the chance to ask the IASB project team questions about applying the prospective Standard; and

(c) to ask members what implementation support they expect will be needed for the prospective Standard.

18. Staff presented an overview of the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*, and explained how the Standard will be kept up to date.

19. Three members commented on the scope of the prospective Standard, saying that it should not be limited to subsidiaries. Staff explained that the IASB plans to review the scope of the Standard in the future, possibly as part of the post-implementation review.

20. Members asked what support would be available on applying the definition of public accountability. Staff said the IASB will make educational material available when it issues the prospective Standard.

21. One member asked how to apply the fair presentation requirements without the disclosure objectives. The IASB member Tadeu Cendon said the IASB decided that including the disclosure objectives could result in the same disclosures that are required in the IFRS Accounting Standards.

22. One member said that the effects of the prospective Standard would vary between jurisdictions. Another member said that users of the financial statements of eligible subsidiaries that currently apply IFRS Accounting Standards would receive less information if an eligible subsidiary elected to apply the new Standard.

23. One member said that the disclosures required for consolidating a subsidiary into a group may include information that might not be disclosed applying the new Standard.

Next steps

24. The IASB aims to issue the new Standard in the first half of 2024.

IASB Technical Update

25. Tadeu Cendon presented an update on the IASB's technical work and asked members if they had any questions on the activities of the IASB set out in Agenda Paper 3. Participants asked questions and shared their perspectives.

Equity Method

26. The purpose of this session was:

    (a) to provide members with an overview of the IASB's tentative decisions on the project; and

    (b) to ask for views on those tentative decisions, including the potential effects (costs and benefits) arising from those decisions.

27. Most members who commented supported the IASB's tentative decisions. One member said that the answers to application questions about the equity method provided clarity and that the benefits will outweigh the costs. However some members expressed concerns:

    (a) one member disagreed with the tentative decision that an investor purchasing an additional interest in an associate would recognise a gain from a bargain purchase in the statement of profit or loss. The member said that this accounting would not reflect the economic substance if the purchase of the additional interest is part of a bundled transaction and might result in manipulation of financial results.

    (b) four members disagreed with the tentative decision that an investor would recognise the full gain or loss on all transactions with its associate. One member said this tentative decision seems inconsistent with paragraph 26 of IAS 28 *Investments in Associates and Joint Ventures,* which states that many of the procedures that are appropriate in applying the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements*. Another member added that this tentative decision would increase the differences between amounts reported in separate and consolidated financial statements, which could affect dividend distribution and taxable income amounts in some jurisdictions.

28. One member said the option to account for investments in associates, joint ventures and subsidiaries in separate financial statements using the equity method is not available in their jurisdiction.

29. One member said that the practice in their jurisdiction is to align the equity and profit or loss reported in the parent's separate financial statements to the amounts reported in consolidated financial statements for equity attributable to the owners of the parent.

30. One member asked to clarify at what date an entity determines the carrying amount of an investment for the purpose of calculating the portion to be derecognised in a partial disposal.

Next steps

31. At future IASB meetings, the IASB will consider any outstanding issues.

Hyperinflation update

32. The members from the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) reported on Argentina's experience applying IAS 29 *Financial Reporting in Hyperinflationary Economies*. The presentation identified challenges Argentinian entities have faced in applying IAS 29, particularly:

    (a) obtaining the price indexes to restate information retrospectively when first implementing IAS 29; and

    (b) navigating the relationship between IAS 29 and other IFRS Accounting Standards.

33. Preparers and users from the delegation presented their perspectives on the understandability and usefulness of the information required in IAS 29. Participants asked questions and shared their own perspectives.

Business Combinations under Common Control

34. The delegation from the Mexican Financial Reporting Standards Board (CINIF), consisting of the president and a member, presented the results of a targeted post-implementation review

(PIR) of Mexican requirements for reporting business combinations under common control (BCUCCs). Mexican accounting standards were updated in 2021 to include requirements similar to the IASB's preliminary views in the Discussion Paper *Business Combinations under Common Control*.

35. The PIR found that:

    (a) the anticipated benefits of reducing diversity in practice, improving transparency and providing better information were generally achieved;

    (b) the new requirements eliminated uncertainties about which method to apply to report a BCUCC, although typically an entity would have applied the same method without the new requirements; and

    (c) the benefits of applying the new requirements exceeded the costs.

36. The CINIF members therefore supported the IASB continuing with the current BCUCC project direction—that is, developing recognition, measurement and disclosure requirements—when it reviews the project direction at an upcoming IASB meeting. Another member also supported the IASB developing recognition, measurement and disclosure requirements. Other members asked questions about the PIR, which the CINIF representatives answered.

37. Some other members commented on aspects of the IASB's BCUCC project, including:

    (a) the substance of BCUCCs; and

    (b) concerns about some of the IASB's preliminary views in the Discussion Paper—for example, structuring opportunities with insignificant non-controlling shareholders.

Next step

38. The IASB will discuss the project direction in its November 2023 IASB meeting.

Countries Profile—Africa

39. Representatives from Zimbabwe and Namibia shared some of the application issues that they faced in applying the IFRS Accounting Standards in their jurisdictions.

Next meeting

40. The 27th EEG meeting will be held in the May 2024 in Taiyuan, Shanxi (China) and will be hosted by the CASC.

41. 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.

42. The Korea Accounting Standards Board (KASB) expressed its willingness to host the 30th EEG meeting in the second half of 2025 in Seoul, Korea.