

UK Accounting Standards Endorsement Board

Governance & Due Process Annual Report 2021/22

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I Introduction

The UK Accounting Standards Endorsement Board ('UKEB') was established to perform certain functions relating to the adoption of International Financial Reporting Standards ('IFRS') as developed by the International Accounting Standards Board ('IASB'), for use in the UK, and to contribute on behalf of the UK to the development of a single set of international accounting standards.

Chapter 3 of The International Accounting Standards and European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685) confers on the Secretary of State for Business, Energy and Industrial Strategy ('BEIS') functions relating to the adoption of IFRS for application in the UK. The Secretary of State exercised the power conferred by Chapter 4 of those Regulations to delegate to the UKEB the functions specified in SI 2021/609, ('the Delegation Regulations') ('the Functions'). This delegation of powers came into force on 22 May 2021.

Underpinning the performance of the functions, UKEB has certain governance and due process duties and responsibilities which are incorporated within the following three documents:

- Memorandum of Understanding ('MoU') between UKEB, BEIS and FRC
- UKEB Terms of Reference ('ToR')
- UKEB Due Process Handbook ('the Handbook')

The MoU (s 4.1) states that the FRC has oversight responsibility in respect of the effective governance of UKEB whilst recognising the fundamental importance of UKEB's independence by confirming (in s 4.3) that the FRC does not have the power to direct the UKEB in relation to the determination of its programme of work or the outcome of its technical decision-making.

The MoU (s 9.2) requires UKEB to report annually to the FRC Board setting out how it has complied with the procedures in the Handbook. The ToR (s 10.2(b)) supports this by requiring that UKEB report, at least annually, to the FRC in relation to its governance and due process.

This report fulfils the above stated annual reporting requirement. Since the UKEB's delegated powers, and the MoU, came into force on 22 May 2021, this report covers the period from 22 May 2021 to 31 March 2022.

The UKEB Board is satisfied that it has fulfilled its governance and due process duties and responsibilities in line with expectations in its first year of operation. The Board continues to work on other set-up activities, including finalisation of the Handbook. Its primary focus in this inaugural year has been to lay the foundations for sound governance and due process that it will continue to build on in the year ahead.

2 UKEB's Inaugural Year

The year to 31 March 2022 was UKEB's first year of operation. This has been a year of significant activity across a number of areas: establishing the Board; recruiting into the Secretariat; and progressing the design, implementation and embedding of the constituent parts of the governance and due process framework. This was achieved against the backdrop of a global

pandemic which necessitated a shift in working practices. During this set-up phase, UKEB has focused on establishing, as quickly as possible, the core policies and processes aligned to its governance and due process duties and responsibilities as set out in the MoU and ToR.

2.1 Core Values & Guiding Principles

The UKEB operates in the interest of the UK's long-term public good. It is committed to performing its functions, and acting at all times, in accordance with its four guiding principles of accountability, independence, transparency and thought leadership, to ensure compliance with the seven principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). These core values permeate the UKEB's governance and due process activities, including the following:

- The Board provides clear and transparent rationale for its technical decision-making via public Board meetings which are attended by official observers and open to attendance by members of the public. Recordings of the meetings are also made available online.
- Public Board meeting papers are published on the UKEB website in advance of meetings and summary minutes are published afterwards.
- Private Board meeting agendas and summary minutes are published on the UKEB website.
- There is proactive engagement with stakeholders to ensure that their views are heard and the potential impact of IASB proposals is understood.
- Public consultation comment letters received from stakeholders are made available on the UKEB website unless the stakeholder requests otherwise.
- Impact assessments are performed in line with the requirements of the BEIS Better Regulation Framework.
- The Board has developed a Conflicts of Interest Policy and Gifts and Hospitality Policy. This includes the maintenance and publication of a Transparency Register, to ensure transparency around meetings held with stakeholders, and a Gifts and Hospitality Register.
- Managing Public Money principles are applied rigorously and both the UKEB Board and the FRC subsidiary Directors carried out regular scrutiny of the 2021/22 budget management.
- A robust process for ensuring that the 2022/23 regulatory strategy and budget were subject to timely scrutiny and approval, both internally by the UKEB Board, and by BEIS (strategy and budget) and the FRC Accounting Officer (budget). Both the strategy and budget were also published for public consultation.

2.2 Due Process Handbook

The purpose of the Handbook is to set out the due process requirements that the UKEB Board will apply to its activities, ensuring that the UKEB adheres to its core values and guiding principles. A clearly defined due process is designed to ensure that the UKEB's technical decision-making is based upon evidence gathered during the course of a project, including stakeholder engagement activities. It plays a key role in the development of high-quality financial reporting and delivery of accountability and transparency to stakeholders.

The Handbook has been in development since the UKEB was established in 2021. It has been developed under the supervision of the UKEB Board, including oversight of timelines and resourcing, with detailed discussions taking place at a number of public Board meetings throughout 2021 and at the start of 2022. Feedback was also received from the FRC Oversight Team and incorporated into the draft, where appropriate. On 21 February 2022 the draft Handbook was issued for a public consultation that will run until 23 May.

In the absence of a finalised Handbook during the period covered by this report, the Board has been guided by UKEB's core values and guiding principles and its duties and responsibilities as set out in the MoU and ToR. The Board has had detailed discussions throughout the year on its approach to due process in relation to individual projects, in parallel to its discussions on individual sections of the Handbook. This has enabled the Board to test the practicality of its due process proposals, including the oversight of projects and approval of project workplans. As this thinking developed during the year, culminating in publication of the draft Handbook for consultation, the board's approach to project management continued to evolve in line with the emerging due process.

The evolution of the UKEB's approach to due process has been evident in the Board's approach to live projects in real time. For example, the development of the Due Process Compliance Statement was first discussed by the Board at its October 2021 meeting and has been applied to projects completed since then. Finalisation of the Handbook is a key priority for 2022.

Appendix 1 sets out the projects that UKEB has undertaken during the reporting period and the due process steps taken.

2.3 Influencing

Participating in, and contributing to, the development of a single set of international financial reporting standards is a primary UKEB function which the Board has begun to address in its inaugural year. This has been balanced against the competing priorities, from a time and resource perspective, of the more time critical set-up and endorsement activities. A proportionate approach has been taken to the allocation of resources to influencing activities that were considered to have the greatest potential impact on UK stakeholders. The broader influencing strategy will be enhanced through 2022/23 as set-up activities are completed and resource becomes available to progress it. Influencing and thought leadership objectives form a key part of UKEB's 2022/23 regulatory strategy and the UKEB has already begun work on two research projects.

2.4 Terms of Reference Updates

UKEB's original ToR, approved at its inaugural Board meeting of 26 March 2021, stated that the shortlisting of candidates for UKEB Board recruitment would be performed by the FRC's People Committee. This was identified as an impediment to UKEB's independence and both BEIS and the FRC agreed that the ToR should be updated to require instead that an FRC Board member is part of the interview process and final decision making recommendations to the Chair. It was further agreed that UKEB will report on its member composition and appointments as part of its annual report to FRC on its governance and due process.

The changes were formalised in March 2022 and, in respect of the members' recruitment process, aligns the ToR wording with the process that was followed for recruitment of the original UKEB Board members.

3 Board Composition & Appointments

The UKEB’s first (interim) Chair was appointed by the Secretary of State in September 2020 and led the recruitment of the ten Board members who were appointed in March 2021. UKEB held its inaugural Board meeting on 26 March 2021, in advance of the delegation of its functions on 22 May 2021. The Board brings together a range of backgrounds and expertise, as follows:

	Name	Role	Category
1	Pauline Wallace	(Interim) Executive Chair	
2	Mike Ashley	Non-Executive Director	Preparer of Accounts
3	Phil Aspin	Non-Executive Director	Preparer of Accounts
4	Paul Lee	Non-Executive Director	Investor
5	Liz Murrall	Non-Executive Director	Investor
6	Giles Mullins	Non-Executive Director	Accounting Firm
7	Sandra Thompson	Non-Executive Director	Accounting Firm
8	Amir Amel-Zadeh	Non-Executive Director	Academic
9	Michael Wells	Non-Executive Director	Academic
10	Kathryn Cearns	Non-Executive Director	Other
11	Katherine Coates	Non-Executive Director	Other

The appointment of a permanent Chair, by the Secretary of State, is currently in progress. The (interim) Chair was appointed in September 2020 for a period of 12 months and the term has now been extended until September 2022. The ToR states that an interim Chair can be appointed by the Secretary of State for a term of up to 18 months. The UKEB’s current (interim) Chair has exceeded that time period for reasons beyond the control of the UKEB.

The recruitment of two additional Board members, an economist and either an investor or technical accountant, is also in progress. The new members will be appointed by the (interim) Chair, with the approval of the Secretary of State, following a fair and open process. The interview panel is comprised of the UKEB (interim) Chair, a BEIS representative, a member of the FRC Board and an independent panel member.

The inaugural UKEB Annual Board Effectiveness Review will take place in May/ June 2022, with a target completion date of 30 June. The review will be led by the (interim) Chair. The UKEB Chair is also subject to an annual performance review by BEIS, the first of which took place in September 2021.

Appendix I Due Process Documents Published

	Type of Project	Project Initiation Plan	Final Comment Letter	Date Final Comment Letter	Feedback Statement	Other Steps e.g. Draft Comment Letter / Outreach	DPCS
Influencing Projects							
Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board	Exposure Draft	⁻¹	✓	29/07/21	⁻¹	⁻¹	⁻²
Regulatory Assets & Regulatory Liabilities	Exposure Draft	✓	✓	30/07/21	✓	Draft Comment Letter	⁻²
Business Combinations Under Common Control	Discussion Paper		✓	26/08/21	✓	Draft Comment Letter / Survey	⁻²
Lack of Exchangeability (Proposed Amendments to IAS 21)	Exposure Draft		✓	31/08/21	✓	Draft Comment Letter	⁻²
IASB Third Agenda Consultation	Request for Information		✓	21/09/21	✓	Draft Comment Letter / Roundtables / Panel Discussion	⁻²
Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17)	Exposure Draft	⁻³	✓	23/09/21	✓	Draft Comment Letter	⁻²
Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19)	Exposure Draft	✓	✓	17/12/21	✓	Videos / Draft Comment Letter / Outreach	✓

¹ In the UK, the Department for Business, Energy and Industrial Strategy (BEIS) currently has responsibility for policy development on sustainability reporting. Sustainability standards are currently outside the remit of the UKEB and therefore the Board has not undertaken any formal outreach with UK stakeholders to obtain their views. The Comment Letter, therefore, solely reflects the views of the UKEB members.

² Before the Due Process Compliance Statement due process step was agreed (at 28 October 2021 Board meeting).

³ An urgent project whereby the IASB published the Exposure Draft on 28 July 2021 with a comment deadline of 27 September. The UKEB Board did not meet in August 2021.

	Type of Project	Project Initiation Plan	Final Comment Letter	Date Final Comment Letter	Feedback Statement	Other Steps e.g. Draft Comment Letter / Outreach	DPCS
Post-implementation Review of IFRS 9 Classification and Measurement	Post-Implementation Review	√	√	28/01/22	√	Draft Comment Letter / Outreach	√
Subsidiaries Without Public Accountability: Disclosures	Exposure Draft	√	√	23/02/22	√	Video / Draft Comment Letter / Interviews	√
Non-Current Liabilities with Covenants (Proposed Amendments to IAS 1)	Exposure Draft	√	√	21/03/22	√	Draft Comment Letter / Interviews	– ⁴
Supplier Finance Arrangements (Proposed Amendments to IAS 7 and IFRS 7)	Exposure Draft	√	√	28/03/22	√	Draft Comment Letter / Interviews	– ⁴
Research Projects							
Subsequent Accounting for Goodwill <ul style="list-style-type: none"> Phase 1 desk-based research (complete) Phase 2 field-testing (in-progress) 	Research	√	√ ⁵	17/12/21	– ⁶	Field Testing	– ⁶
Intangibles (in-progress)	Research	√	– ⁶	–	–	1-1 Interviews	– ⁶

⁴ Presented at 21 April 2022 Board meeting i.e. after the reporting period covered by this report.

⁵ Letter submitted to IASB rather than a Final Comment Letter.

⁶ Project has just commenced. It will include multiple outputs.

	Project Initiation Plan	DECA	ECA	Feedback Statement	Other Steps	Publication within 3 working days of final written vote	DPCS
Endorsement and Adoption Projects							
Narrow Scope Amendments (effective date: 1 January 2022)							
Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards—Subsidiary as a First-time Adopter (Annual Improvements to IFRS 2018–2020)	√	√	–7	–7	–	–7	–7
Amendment to IFRS 9 Financial Instruments—Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities (Annual Improvements to IFRS 2018–2020)	√	√	–7	–7	–	–7	–7
Amendment to IAS 41 Agriculture—Taxation in Fair Value Measurements (Annual Improvements to IFRS 2018–2020)	√	√	–7	–7	–	–7	–7
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	√	√	–7	–7	–	–7	–7
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	√	√	–7	–7	–	–7	–7
Reference to the Conceptual Framework (Amendments to IFRS 3)	√	√	–7	–7	–	–7	–7
IFRS 17 Insurance Contracts (effective date: 1 January 2023)							
IFRS 17 <i>Insurance Contracts</i>	–8	√	–9		Technical Advisory Group / Surveys / Roundtables / Webinars / Interviews / Economic Report	–9	–9

⁷ Adopted on 12 April 2022 i.e. after the reporting period covered by this report.

⁸ Process to endorse and adopt IFRS 17 commenced before the UKEB was established. The previous governance process approved an equivalent of a Project Initiation Plan.

⁹ In-progress.