

# **Report on the carrying out of functions designated under the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021**

*Presented to Parliament pursuant to Regulation 17 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019*

# Report on the carrying out of functions designated under The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021

20 May 2022

Presented to BEIS Secretary of State pursuant to Regulation 17 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019

## Introduction

1. The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (the IAS Regulations) came into force at the end of the Implementation Period on 31 December 2020, following the UK's exit from the European Union (EU).
2. The IAS Regulations brought into UK law all existing international accounting standards as adopted by the EU as at the end of the Implementation Period to form UK-adopted international accounting standards. They also provided the Secretary of State with the powers to adopt international accounting standards for use in the UK and provided for these powers to be delegated to a designated UK body.
3. On 22 May 2021, the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 designated the UK Endorsement Board (UKEB) as the body to undertake certain functions of the Secretary of State in the IAS Regulations.
4. Under Regulation 17 of the IAS Regulations, the UKEB is required to report annually to the Secretary of State on the discharge of its delegated functions. The Secretary of State is in turn required to lay copies of these reports before Parliament. This is the UKEB's first report to the Secretary of State and is due by 22 May 2022.

## Adoptions of international accounting standards

5. Since the UKEB's statutory functions were delegated, it has adopted a number of amendments to international accounting standards and a new international accounting standard for use in the UK. These are detailed below.

## Annual Improvements to IFRS® Standards 2018–2020

6. The International Accounting Standards Board (IASB) published the amendments *Annual Improvements to IFRS® Standards 2018–2020* (Annual Improvements) in May 2020. The Annual Improvements comprise three amendments:

- a) Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*—"Subsidiary as a First-time Adopter" (Subsidiary as a First-time Adopter).
  - b) Amendment to IFRS 9 *Financial Instruments*—"Fees in the '10 per cent' Test for Derecognition of Financial Liabilities" (Fees in the '10 per cent' Test).
  - c) Amendment to IAS 41 *Agriculture*—"Taxation in Fair Value Measurements" (Taxation in Fair Value Measurements).
7. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS Accounting Standards and to support consistent application. Annual Improvements are amendments that are sufficiently minor or narrow in scope and are bundled together in a single document (even though amendments are unrelated). These amendments are limited to changes that clarify the wording in the standards, or correct relatively minor unintended consequences, oversights or conflicts between existing requirements.
  8. The amendment "Subsidiary as a First-time Adopter" was published to permit subsidiary entities that apply the exemption in paragraph D16(a) of IFRS 1 to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards.
  9. The amendment "Fees in the '10 per cent' Test" was published to clarify which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. The borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
  10. The amendment "Taxation in Fair Value Measurements" removes the requirement in paragraph 22 of IAS 41 to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique. This is to ensure consistency with the requirements in IFRS 13 *Fair Value Measurement*.
  11. Although the Annual Improvements were published by the IASB before the end of the Implementation Period, the EU's process for adoption of these amendments had not been completed by that date. As a result, they were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Implementation Period on 31 December 2020.
  12. The UKEB assessed these amendments against the adoption criteria in Regulation 7 of the IAS Regulations. The UKEB also consulted a representative range of stakeholders interested in the quality and availability of accounts in accordance with Regulation 8 of the IAS Regulations. The UKEB's assessment and conclusions can be found here:  
  
<https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/296dcdc4-35b9-471b-b0b7-ffef3e5f66b5/ECA%20-%20Adoption%20of%20May%202020%20Amendments.pdf>
  13. The UKEB was satisfied that the three amendments meet the criteria in Regulation 7. The UKEB decided, therefore, to adopt the three amendments on 12 April 2022.
  14. Application of the three amendments to UK-adopted international accounting standards is mandatory for financial years beginning on or after 1 January 2022, and application to financial years beginning before 1 January 2022 is permitted.

15. Regulation 11 of the IAS Regulations requires a review of the impact of the adoption of a standard where that standard is considered to be a “significant change in accounting practice”. The UKEB is in the process of establishing its policy on the meaning of a “significant change in accounting practice”. Initial consideration of these amendments shows that their implementation is not likely to lead to a significant change in accounting practice. If this initial view is confirmed, no Regulation 11 review will be undertaken for these amendments.
16. Further information, including the UKEB’s Endorsement Criteria Assessment and Adoption Statement, is available on the UKEB’s website: <https://www.endorsement-board.uk/endorsement-projects/2020-narrow-scope-amendments-projects>

## **Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)**

17. The IASB published the amendments “Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)” (Onerous Contracts) in May 2020. Although the Onerous Contracts amendments were published by the IASB before the end of the Implementation Period, the EU’s process for adoption of these amendments had not been completed by that date. As a result, they were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Implementation Period on 31 December 2020.
18. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS Accounting Standards and to support consistent application. Narrow-scope amendments address concerns about a specific aspect of a standard without causing major or significant changes in practice.
19. The Onerous Contracts amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. These costs can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.
20. The UKEB assessed the Onerous Contracts amendments against the adoption criteria in Regulation 7 of the IAS Regulations. The UKEB also consulted a representative range of stakeholders interested in the quality and availability of accounts in accordance with Regulation 8 of the IAS Regulations. The UKEB’s assessment and conclusions can be found here:  
  
<https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/296dcdc4-35b9-471b-b0b7-ffe3e5f66b5/ECA%20-%20Adoption%20of%20May%202020%20Amendments.pdf>
21. The UKEB was satisfied that the Onerous Contracts amendments meet the criteria in Regulation 7. The UKEB decided, therefore, to adopt the Onerous Contracts amendments on 12 April 2022.
22. Application of the Onerous Contracts amendments is mandatory for financial years beginning on or after 1 January 2022, and application to financial years beginning before 1 January 2022 is permitted.
23. Regulation 11 of the IAS Regulations requires a review of the impact of the adoption of a standard where that standard is considered to be a “significant change in accounting practice”. The UKEB is in the process of establishing its policy on the meaning of a

“significant change in accounting practice”. Initial consideration of the Onerous Contracts amendments shows that their implementation is not likely to lead to a significant change in accounting practice. If this initial view is confirmed, no Regulation 11 review will be undertaken for these amendments.

24. Further information, including the UKEB’s endorsement criteria assessment and adoption package, is available on the UKEB’s website: <https://www.endorsement-board.uk/endorsement-projects/2020-narrow-scope-amendments-projects>

## **Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)**

25. The IASB published the amendments “Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)” (Proceeds before Intended Use) in May 2020. Although the Proceeds before Intended Use amendments were published by the IASB before the end of the Implementation Period, the EU’s process for adoption of these amendments had not been completed by that date. As a result, they were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Implementation Period on 31 December 2020.
26. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS Accounting Standards and to support consistent application. Narrow-scope amendments address concerns about a specific aspect of a standard without causing major or significant changes in practice.
27. The Proceeds before Intended Use amendments prohibit an entity from deducting from the cost of property, plant and equipment any proceeds received from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items and related cost in profit or loss.
28. The UKEB assessed the Proceeds before Intended Use amendments against the adoption criteria in Regulation 7 of the IAS Regulations. The UKEB also consulted a representative range of stakeholders interested in the quality and availability of accounts in accordance with Regulation 8 of the IAS Regulations. The UKEB’s assessment and conclusions can be found here:  
<https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/296dcdc4-35b9-471b-b0b7-ffef3e5f66b5/ECA%20-%20Adoption%20of%20May%202020%20Amendments.pdf>
29. The UKEB was satisfied that the Proceeds before Intended Use amendments meet the criteria in Regulation 7. The UKEB decided, therefore, to adopt the Proceeds before Intended Use amendments on 12 April 2022.
30. Application of the Proceeds before Intended Use amendments is mandatory for financial years beginning on or after 1 January 2022, and application to financial years beginning before 1 January 2022 is permitted.
31. Regulation 11 of the IAS Regulations requires a review of the impact of the adoption of a standard where that standard is considered to be a “significant change in accounting practice”. The UKEB is in the process of establishing its policy on the meaning of a “significant change in accounting practice”. Initial consideration of the Proceeds before Intended Use amendments shows that their implementation is not likely to lead to a

significant change in accounting practice. If this initial view is confirmed, no Regulation 11 review will be undertaken for these amendments.

32. Further information, including the UKEB's Endorsement Criteria Assessment and Adoption Statement, is available on the UKEB's website: <https://www.endorsement-board.uk/endorsement-projects/2020-narrow-scope-amendments-projects>

## Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

33. The IASB published the amendments "Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)" (Reference to the Conceptual Framework) in May 2020. Although the Reference to the Conceptual Framework amendments were published by the IASB before the end of the Implementation Period, the EU's process for adoption of these amendments had not been completed by that date. As a result, they were not incorporated into Domestic UK law as UK-adopted international accounting standards at the end of the Implementation Period on 31 December 2020.
34. The IASB issues amendments to international accounting standards as part of its continuous effort to maintain and improve IFRS Standards and to support consistent application. Narrow-scope amendments address concerns about a specific aspect of a standard without causing major or significant changes in practice.
35. The Reference to the Conceptual Framework amendments updated IFRS 3 to require an entity to refer to the "Conceptual Framework" published by the IASB in March 2018 rather than to an older version of the Conceptual Framework. The amendments also added an exception to its requirement for an entity to refer to the "Conceptual Framework" for some types of liabilities and contingent liabilities. An entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*.
36. The UKEB assessed the Reference to the Conceptual Framework amendments against the adoption criteria in Regulation 7 of the IAS Regulations. The UKEB also consulted a representative range of stakeholders interested in the quality and availability of accounts in accordance with Regulation 8 of the IAS Regulations. The UKEB's assessment and conclusions can be found here:
- <https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/296dcdc4-35b9-471b-b0b7-ffef3e5f66b5/ECA%20-%20Adoption%20of%20May%202020%20Amendments.pdf>
37. The UKEB was satisfied that the Reference to the Conceptual Framework amendments meet the criteria in Regulation 7. The UKEB decided, therefore, to adopt the Reference to the Conceptual Framework amendments on 12 April 2022.
38. Application of the Reference to the Conceptual Framework amendments is mandatory for financial years beginning on or after 1 January 2022, and application to financial years beginning before 1 January 2022 is permitted.
39. Regulation 11 of the IAS Regulations requires a review of the impact of the adoption of a standard where that standard is considered to be a "significant change in accounting practice". The UKEB is in the process of establishing its policy on the meaning of a "significant change in accounting practice". Initial consideration of the Reference to the Conceptual Framework amendments shows that their implementation is not likely to lead

to a significant change in accounting practice. If this initial view is confirmed, no Regulation 11 review will be undertaken for these amendments.

40. Further information, including the UKEB's Endorsement Criteria Assessment and Adoption Statement, is available on the UKEB's website: <https://www.endorsement-board.uk/endorsement-projects/2020-narrow-scope-amendments-projects>

## **IFRS 17 Insurance Contracts**

41. The IASB published IFRS 17 *Insurance Contracts* (IFRS 17) in May 2017. IFRS 17 is a fundamental overhaul of insurance contract accounting which will ensure that an entity provides relevant information to its investors that faithfully represents those insurance contracts. It replaces an interim standard which does not prescribe requirements for the recognition, measurement or presentation of insurance contracts and allows entities to use a wide variety of accounting practices, thereby impairing comparability between similar companies.
42. IFRS 17 requires entities that issue insurance contracts to use updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Profits are only recognised as the entity delivers services and entities must provide information about insurance contract profits they expect to recognise in the future.
43. Although IFRS 17 was published by the IASB before the UK's Exit from the EU, the EU's process for adoption of the standard had not been completed by that date. As a result, IFRS 17 was not incorporated into Domestic UK law as a UK-adopted international accounting standard at the end of the Implementation Period on 31 December 2020.
44. Subsequent to the publication of IFRS 17, the IASB published two further amendments to the standard: "Amendments to IFRS 17" in June 2020 and "Initial Application of IFRS 17 and IFRS 9—Comparative Information" in December 2021. These two amendments have been included in the UKEB's assessment of IFRS 17.
45. The UKEB assessed IFRS 17 against the adoption criteria set out in Regulation 7 of the IAS Regulations. Given the significant change in accounting, the UKEB undertook extensive discussions with a broad range of stakeholders in accordance with Regulation 8 of the IAS Regulations. The work to support the IFRS 17 endorsement assessment spanned many months and was responsive to stakeholder input throughout. The UKEB's assessment work included:
- a) Desktop analysis of the standard, the basis for its requirements, and of commentaries and technical analyses issued by, for example, accounting firms and professional bodies.
  - b) Consideration of feedback from UK stakeholders on IFRS 17 as issued in 2017 and their input to the amendments finalised in 2020, including comment letters submitted to the IASB.
  - c) A review of submissions to EFRAG from UK stakeholders, discussions with EFRAG staff and a review of EFRAG's Draft and Final Endorsement Advice, given that EFRAG's work occurred on behalf of the UK until the UK's Exit from the EU.
  - d) Discussions with insurance companies, Lloyd's of London and the Association of British Insurers, and a survey of UK insurers.

- e) Consideration of investor and analyst views expressed to the IASB during its outreach work, discussions with UK-based analysts and ratings agencies and a survey of users of insurance company accounts.
- f) The establishment of an Insurance Technical Advisory Group, who assisted the UKEB Secretariat in developing the group's work plan and forward agenda and undertook detailed technical consideration of potential UK endorsement issues.
- g) Further technical input from auditors, accountants and actuaries as appropriate in relation to specific endorsement issues.
46. The UKEB was satisfied that IFRS 17 meets the criteria in Regulation 7. The UKEB therefore approved IFRS 17 for adoption for use in the UK on 16 May 2022.
47. Application of IFRS 17 is mandatory for financial years beginning on or after 1 January 2023. Early application is permitted if an entity also applies IFRS 9 *Financial Instruments* on or before the date of initial application of IFRS 17.
48. Regulation 11 of the IAS Regulations requires a review of the impact of the adoption of a standard where that standard is considered to be a "significant change in accounting practice". The UKEB is in the process of establishing its policy on the meaning of a "significant change in accounting practice". Initial consideration of IFRS 17 shows that its implementation is likely to represent a significant change in accounting practice. If this initial view is confirmed, the impact of IFRS 17 will be reviewed under Regulation 11 before 31 December 2027.
49. Further information, including the UKEB's Endorsement Criteria Assessment, Feedback Statement and Adoption Statement, is available on the UKEB's website [here](#).

## Influencing international accounting standards

50. The UKEB also conducts projects to influence the development of international accounting standards. This is in line with the UKEB's delegated responsibility to participate in and contribute to a single set of international accounting standards under Regulation 5 of the IAS Regulations.
51. Since delegation of statutory functions in May 2021, the UKEB has influenced the IASB by commenting on the IASB's draft standards, Discussion Papers and Post-implementation Reviews. As a formal part of the influencing process, the UKEB publishes draft comment letters to provide UK stakeholders the opportunity to input into the final responses submitted by the UKEB to the IASB. Between May 2021 and May 2022, 11 comment letters were written and submitted to the IASB on the following topics:

<b>Comment letters submitted</b>
<p><b>Significant or major projects</b></p> <ul style="list-style-type: none"> <li>• IASB Third Agenda Consultation</li> <li>• Regulatory Assets and Regulatory Liabilities</li> <li>• Business Combinations under Common Control</li> <li>• Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19)</li> <li>• Post-implementation Review of IFRS 9 - Classification and Measurement</li> <li>• Subsidiaries Without Public Accountability: Disclosures</li> </ul> <p><b>Narrow-scope amendments projects</b></p>



- Lack of Exchangeability (Proposed Amendments to IAS 21)
- Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Proposed Amendment to IFRS 17)
- Non-Current Liabilities with Covenants (Proposed Amendments to IAS 1)
- Supplier Finance Arrangements (Proposed Amendments to IAS 7 and IFRS 7)

52. The UKEB takes a proportionate approach to its influencing work, allocating more resources to significant or major projects which have the potential to have a greater impact on UK stakeholders. This enables a full assessment of UK-specific issues on the IASB proposals, gleaned through engagement with UK stakeholders. Outreach activities on significant projects could include educational videos, interviews, field-testing, roundtables and surveys.

53. More information on the UKEB’s work, including its workplan, is available on its website: <https://www.endorsement-board.uk/>

## Research and thought leadership work

54. In addition to conducting projects to influence the development of international accounting standards, the UKEB also undertakes research and thought leadership work. This work enables the UKEB to fulfil its delegated responsibility to participate in and contribute to a single set of international accounting standards under Regulation 5 of the IAS Regulations.

55. The UKEB was still establishing its processes and policies during this first year of operation. However, it has now commenced research and thought leadership work. It aims to use its pro-active research to influence the development of the IASB’s work at an earlier stage. The work so far has concentrated on two topics:

<b>Research and thought leadership projects</b>
<p><b>Subsequent accounting for goodwill</b></p> <ul style="list-style-type: none"> <li>• The UKEB is undertaking research to analyse the impact of potential changes to the subsequent measurement of goodwill under IFRS. The project will provide UK-specific information to the IASB during its discussions on accounting for goodwill and impairment.</li> <li>• The project is exploring: <ul style="list-style-type: none"> <li>○ How a hybrid model for subsequent measurement of goodwill, comprising annual amortisation supported by impairment testing, can provide information that is useful for users.</li> <li>○ Potential approaches to estimating the useful life of goodwill for amortisation purposes.</li> <li>○ How transitioning to such a hybrid model might affect the financial position of a group or company, including impact on debt covenants and legal and regulatory requirements.</li> </ul> </li> <li>• The project is being undertaken by field-testing different approaches with UK stakeholders.</li> </ul>
<p><b>Intangibles</b></p> <ul style="list-style-type: none"> <li>• The UKEB is undertaking a comprehensive research project to consider how the accounting for, and reporting of, intangible assets could be improved to provide investors with more useful general purpose financial statements to assist them to make better informed decisions.</li> <li>• Intangible assets are expected to form a key part of the IASB’s future standard setting agenda. A pro-active thought leadership project on intangible assets will enable the UKEB to fulfil its responsibility to proactively participate in the development of high-quality accounting standards by leading the UK debate on accounting and reporting of intangible assets as well as contributing to and actively participating in the international debate on a timely basis.</li> <li>• The project will:</li> </ul>

- Explore UK stakeholders' views on the accounting for intangibles under international accounting standards.
- Review the nature and extent of current reporting practices for intangibles by listed UK companies using IFRS Accounting Standards.
- Engage with investors to better understand their perspectives on the current and future reporting of intangibles in the financial statements.
- The project is being undertaken primarily by interviewing UK stakeholders.

56. More information on the UKEB's work, including its workplan, is available on its website: <https://www.endorsement-board.uk/>