Summary of UKEB Preparer Advisory Group (PAG) meeting held on 17 June 2024

No.	Agenda Item
	Welcome
1.	Influencing: Exposure Draft *Contracts for Renewable Electricity*
2.	Influencing: Updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (Catch-up ED)
3.	Endorsement: *Amendments to the Classification and Measurement of Financial Instruments*
4.	Intangibles Scoping discussion
5.	Inter-meeting feedback
6.	Horizon scanning
7.	A.O.B.

Present	
Name	**Designation**
Giles Mullins	Chair, PAG
Seema Jamil-O'Neill	Technical Director, UKEB
Ben Binnington – virtual	PAG member
Chris Buckley	PAG member
Ian Melling	PAG member
Jo Clube	PAG member
Oliver Hexter	PAG member
Peter Leadbetter	PAG member
Stephen Morris	PAG member
Toby Odell	PAG member

Relevant UKEB Secretariat team members were also present.
Apologies: PAG members – Luke Kelly, Michelle O'Mara.

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Welcome

1. The Chair welcomed the Preparer Advisory Group (PAG) members.

Influencing: Exposure Draft *Contracts for Renewable Electricity*

2. The UKEB Secretariat introduced the project on power purchase agreements and the UKEB's Draft Comment Letter (DCL) on the IASB's Exposure Draft (ED) *Contracts for Renewable Electricity*. The Secretariat invited PAG members' views on the ED and the UKEB DCL.

3. In the ensuing discussion, the following points were made by members:

    a) there was concern that the requirements were not to be used by analogy, as preparers expected auditors to look to these as a guide of how entities should be applying the 'own use', hedge accounting, and disclosure requirements.

    b) whilst not an area of particular issue for members, it is likely to become more relevant over the near future due to the increase in use of renewable electricity.

    c) Members sought clarification on the current treatment for 'own use', and highlighted concern at different judgements being reached by different audit firms, and the issue escalating upon rotation of auditors.

    d) Members expressed some concern at the possibility of 'own use' contracts ending up on balance sheet. They noted that they were definitely not trading in such contracts, and whether some form of 'business model' assessment could be a better route to determining an entity's rationale for entering into the contract.

    e) One member expressed support for the overall tone of the UKEB comment letter, and expressed concern at introducing guidance for specific industries.

    f) Members highlighted some concerns with the hedge accounting proposals, and it was noted that the DCL addressed these points.

    g) Members expressed several concerns about the disclosure proposals, including whether users would find this information useful. It was noted that information about electricity consumption would lead to significant non-financial information being disclosed, potentially overwhelming users.

    h) Members also pointed to potential connectivity issues, where sustainability disclosures for overall renewable energy consumption would not be consistent with these disclosures due to the scope of the ED. Additionally, disconnects will also be created with non-renewable electricity contracts, for which there is little or no disclosures.

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Influencing: Updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

4. The IASB has taken tentative decisions on the forthcoming Exposure Draft on *Updating the Subsidiaries without Public Accountability: Disclosures Standard* (catch-up ED), expected during July 2024.

5. The UKEB Secretariat summarised the latest updates from the IASB on the project, and member views were sought on the expected ED proposals for disclosure requirements relating to:

    a) narrow scope amendments *(i.e., Lack of Exchangeability, Pillar Two Model Rules, Supplier Finance Arrangements, and Amendments to the Classification and Measurement of Financial Instruments);* and

    b) IFRS 18 *Presentation and Disclosure in Financial Statements.*

6. In relation to IFRS 18, the catch-up ED is expected to retain substantially all the disclosure requirements, except for management-defined performance measures (MPMs). For MPMs, the approach is to retain the disclosures by a way of cross reference to those disclosures in IFRS 18 rather than listing them individually in IFRS 19. It was noted that for other narrow scope amendments the catch-up ED is mainly expected to remove the disclosure objectives.

7. The UKEB Secretariat asked PAG members' feedback on the proportionality of the disclosures expected to be retained in the catch-up ED. PAG members noted the following points:

    a) One PAG member noted that IFRS 19 overall reductions to the disclosure requirements were limited when compared to the UK Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

    b) PAG members indicated that FRS 101 is widely used in the UK. Some members considered that, companies currently using FRS 101 are unlikely to switch to IFRS 19 as the relevant subsidiaries are already providing reduced disclosures whilst complying with IFRS recognition and measurement requirements. In addition, systems are already designed to provide disclosures required by FRS 101. Therefore, for those subsidiaries the cost of transition from FRS 101 to IFRS 19 could be significant.

    c) However, other members recognised that those groups with significant overseas subsidiaries would likely find an international standard on reduced disclosures helpful as it would help reduce cost by aligning all subsidiaries' reporting and reducing the disclosures for countries where no existing reduced disclosure frameworks are in place.

8. Overall, PAG members were supportive of the adoption of IFRS 19 in the UK as an option available to groups with eligible subsidiaries that conclude the benefits outweigh the costs.

Endorsement: *Amendments to the Classification and Measurement of Financial Instruments*

9. The UKEB Secretariat introduced the new *Amendments to the Classification of Financial Instruments: Amendments to IFRS 9 and IFRS 7*. The UKEB is commencing its work to consider the adoption of these amendments for use in the UK. The main aim of the session was to seek members' views and discussions of the amendments to Recognition and Derecognition - Chapter 3 (the amendments to inform the Draft Endorsement Criteria Assessment.

10. In the ensuring discussion the following points were made:

    a) Members noted that they did not expect the amendments to cause significant change, and therefore the amendments are not expected to give rise to significant costs.

    b) Some members observed that period-end adjustments, to reflect settlement date as the point of derecognition of financial liabilities, would likely be made at an aggregated level rather than at individual transaction level. This was considered consistent with existing practice.

    c) As the amendments have been published only recently, members had not yet discussed these matters with their auditors, nor were they aware of any regulatory views on the amendments.

11. Members were not aware of any matters that may impact the decision on whether to adopt the amendments for use in the UK.

Intangibles scoping discussion

12. The UKEB Secretariat provided a brief update on the status of the UKEB's intangibles research project and the IASB's Intangible Assets project, explaining that the IASB has started its own research in April 2024, with a particular focus on the scope and approach they should take to the project.

13. Members were asked for their views on the possible objective and scope of the IASB's Intangible Assets project. The ensuing discussion saw a diverse range of views expressed. Some key themes to emerge included:

    a) Preparers believe that many investors largely disregard reported intangibles when assessing company financial statements. However, there is interest in some sectors to have expenditure information to include in valuation models.

b) Whether intangibles are internally generated or acquired leads to very different accounting treatments and this drives a lack of comparability between otherwise similar companies.

c) Some members were not sure that extra disclosure on unrecognised intangible assets would be useful or practical for some industries and types of intangibles.

d) There was a strong view that the scope of the IASB's project should be focused on IAS 38 *Intangible Assets* and directly relevant elements of IFRS 3 *Business Combinations,* but that it should not completely reopen the accounting for goodwill or other intangibles that have their own accounting standards (such IFRS 6 *Exploration and Evaluation of Mineral Reserves*).

14. Members were also asked for their views on what approach the IASB should take to its Intangible Assets project. There was strong consensus among this group that an 'early evaluation' approach should be taken. It should focus on identifying examples of where the Standard is currently not working. This could be used to review the current requirements in IAS 38 and amend it, using a pragmatic and principles-based approach to enhance the accounting for intangibles.

Inter-meeting feedback

Influencing projects

15. The UKEB Secretariat thanked PAG members who joined the Investor Advisory Group (IAG) meeting on 10 June 2024 to provide their feedback to the IASB and the UKEB Secretariat on the Exposure Draft *Business Combinations–Disclosures, Goodwill and Impairment* published on 14 March 2024, and on the UKEB draft response to the IASB, issued for public consultation on 31 May 2024.

16. PAG members also provided inter-meeting feedback which supported the UKEB publication of the following documents on influencing projects:

a) Exposure Draft *Financial Instruments with Characteristics of Equity* Proposed amendments to IAS 32 *Financial Instruments: Presentation* – **Final Comment Letter** published 3 April 2024;

b) Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment* Proposed amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* – **Draft Comment Letter** published 31 May 2024; and

c) Exposure Draft *Contracts for Renewable Electricity* Proposed amendments to IFRS 9 and IFRS 7 – **Draft Comment Letter** published 5 June 2024.

Endorsement projects

17. With regards to the Primary Financial Statements project, the Secretariat requested PAG member support to complete a preparer survey on IFRS 18 *Presentation and Disclosure in Financial Statements* and assistance in distributing this survey to appropriate audiences when it is launched in July 2024. The responses received will help the UKEB assess whether the requirements in IFRS 18 meet both the technical accounting and the long term public good criteria for endorsement.

Horizon Scanning

18. The Chair invited PAG members to discuss any current or emerging concerns, noting during the last meeting PAG members spoke about reducing disclosure requirements in financial statements, intangibles, and the upcoming post-implementation review of IFRS 16 *Leases*.

PIR of IFRS 16 *Leases*

19. One PAG member noted that analysts and investors they spoke with are keenly awaiting the IASB's forthcoming post-implementation review ("PIR") of IFRS 16 *Leases*, which is expected to commence in Q2 2024.

Base Erosion and Profit Shifting (BEPS) 2.0 Pillar II: Global Minimum Taxation

20. One PAG member noted the OECD (Organisation for Economic Cooperation and Development)'s Inclusive Framework[1] to address tax challenges that have arisen from the digitalisation of the economy. This framework aims to ensure that large multinational enterprises (MNEs)[2] pay a global minimum effective tax rate of 15% on income within each jurisdiction in which they operate, by imposing a Top-Up Tax on profits arising in jurisdictions where the effective tax rate (ETR) is below 15%. The calculations needed are complex and many of the data points required may not currently be tracked, requiring updates to systems and changes to

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1. Pillar 2 arose out of the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project and aims to end the 'race to the bottom' on tax rates by ensuring that multinationals pay a minimum effective corporate tax rate (of 15% regardless of the local tax rate or tax base). The OECD released its proposed Model Rules and commentary for Pillar 2 in late 2021 and early 2022. The Model Rules provide details on two interlocking measures, the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR), whereby profits taxed at less than 15% would be targeted for additional taxation. The IIR imposes a top-up tax on the ultimate parent entity of a low-taxed foreign subsidiary. The UTPR seeks to deny deductions, or take similar actions, to collect tax that would otherwise not be collected under the IIR. In addition to these two rules, countries signed up to Pillar 2 may also choose to implement a Domestic Minimum Tax (DMT) which would take precedence over these and ensure any top-up tax which would otherwise flow overseas is collected in the territory in which the profits are generated.
2. In order to implement Pillar 2, each country enacts the rules into its local legislation. The Pillar Two rules are now included within Finance (no.2) Act 2023 rules and came into effect for accounting periods beginning on or after 31 December 2023 and apply to multi-national enterprises with annual consolidated group revenue of more than €750m in at least two out of the prior four accounting periods.

existing compliance processes. Even though the UK tax rate is 25%, the effective tax rate could end up being less than 15% because of the tax exemptions taken, and so additional tax payments may be triggered; if entities are present in jurisdictions with low tax regimes, then the parent is responsible for the additional tax liability.

21. The member noted the increase in the compliance burden and that the interaction between this tax legislation and IFRS Accounting Standards being problematic. The UK could be seen as a low tax regime if a lot of relief is taken for tax purposes.

22. Another member mentioned that measuring deferred tax assets and liabilities[3] under the new regime is problematic and hopefully something the IASB will address.

VAT on Carbon credit payments

23. A PAG member noted that HMRC has introduced VAT on payments for Carbon credits. Such payments to charities, such as the Wildlife Trust and the Woodland Trust, are expensed – these may have the capacity to generate carbon credits in the future to enable the achievement of net zero ambitions, but nothing is received by the company at the payment date, and any future asset would never be transferred to the entity. The charity would register the payment as a carbon credit and the entity would be able to retire it. Companies are doing something progressive and positive, and the legal form of the contract is a donation to a charity, but companies are getting penalised by VAT (albeit one member noted it is recoverable if the entity is registered for VAT).

A.O.B.

24. Members were reminded of the guidance circulated to them regarding the pre-election sensitivity period.

25. Members were also invited to participate in a UKEB educational on the practical benefits and challenges of implementing IFRS 18 *Presentation and Disclosure in Financial Statements*. The webinar is planned for 29 July 2024, and will involve the IASB, and a user of financial statements to provide an investor perspective.

26. The Chair noted the next meeting is scheduled to take place on Monday 28 October 2024.

27. There being no other business, the meeting closed.

3 On 23 May 2023, the International Accounting Standards Board (IASB) published final amendments to IAS 12 Income Taxes. These IAS 12 amendments provide companies with a temporary mandatory relief from deferred tax accounting for the impact of the top-up tax and require them to provide new disclosures.