

# Meeting summary of UKEB Investor Advisory Group, 4 November 2024

No.	Agenda Item
1.	Introduction
2.	Presentation and Disclosure in Financial Statements – user survey results
3.	Amendments to the Classification and Measurement of Financial Instruments
4.	Endorsement of ISSB Standards
5.	Climate-related and Other Uncertainties in Financial Statements
6.	Statement of Cash flows
7.	Horizon scanning
8.	A.O.B.

Present	
Name	Designation
Paul Lee	Chair, IAG
Christopher Bamberry	IAG member
Louise Dudley	IAG member
Rupert Krefting	IAG member
Alastair Drake	IAG member
Stanislav Varkalov	IAG member
Tony Silverman	IAG member
Sue Harding	Observer with speaking rights
Tom Simmons	LSEG Observer with speaking rights
Seema Jamil-O'Neill	Technical Director, UKEB

Apologies: James Vane-Tempest

Members UKEB Secretariat presented agenda items. An IASB technical staff member was in attendance for the Cash Flow agenda item only.

Note: The Investor Advisory Group is an advisory, consultative group of the UKEB and has no decision-making capacity. The members share specialist knowledge and technical advice to assist the Board in its decision-making and in fulfilling its statutory roles. Therefore, consensus on issues is not sought. Nothing in these minutes is intended to indicate that any of the views expressed reflect the views of all members of the Advisory Group or of the UKEB.

## Introduction

1. The Chair welcomed the IAG members and the CRUF observer to the meeting.

## Presentation and Disclosure in Financial Statements

2. The Secretariat provided a preliminary summary of the survey feedback received by the UKEB from UK users of financial statements on IFRS 18 *Presentation and Disclosure in Financial Statements*. This summary included an overview of the feedback received on:
  - a) The main presentation and disclosure requirements in IFRS 18.
  - b) Any likely adoption costs and benefits derived from the application of the requirements in IFRS 18, as well as wider economic effects.
3. The Secretariat invited IAG members' views on the significance of the issues identified as part of this summary.
4. IAG members were generally supportive of the feedback received and did not express concern that any of the issues identified should be considered significant for endorsement purposes.
5. The following points were made, and queries raised, by members in the discussion:
  - a) Whether the users' level of support for IFRS 18 was comparable to the level of support expressed by preparers (based on the feedback received on the UKEB preparers' survey). The Secretariat observed that both users and preparers were highly supportive of the requirements in IFRS 18.
  - b) An observation that some equity-accounted investments in associates and joint ventures could be viewed as a continuation of an entity's main business activities. In this case, users would tend to incorporate the results of these investments as part of the operations of a group.
  - c) The coexistence of two sets of performance measures –management-defined performance measures (MPMs) and alternative performance measures (APMs) will not be confusing for users if they are clearly labelled. A member mentioned that users will continue to be observant of the adjustments made in the reconciliations for adjusted performance measures.

- d) That the IFRS 18 requirements would not lead to additional information that could help users assess the creditworthiness or insolvency of entities.
- e) IFRS 18 requirements may lead to more transparent financial information and allow the entities to tell their own story.
- f) An observer questioned if the survey included any questions on assets under management. The Secretariat observed that no questions had been included in this respect as experience with previous surveys had shown that the resulting data was not comparable.

## Amendments to the Classification and Measurement of Financial Instruments

- 6. The UKEB was seeking member views on the potential costs and benefits for users of financial statements arising from *Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments* (Amendments). The Secretariat noted that the Amendments were currently being considered for adoption for use in the UK, and a Draft Endorsement Criteria Assessment (DECA) for the Amendments was open for consultation until 6 January 2025
- 7. The Secretariat provided a summary of the key changes arising from the Amendments, including amendments to the timing of the derecognition of financial liabilities, and the classification and measurement of financial instruments with contingent features. IAG members noted that the costs and benefits contained in the DECA appeared substantially correct, and that they firmly believed the benefits of the Amendments would outweigh any costs to users of financial statements.

## Endorsement of ISSB Standards

- 8. The Chair, as a member of the Technical Advisory Committee (TAC), advised the members that the TAC had made good progress with the technical assessment of IFRS S1 and IFRS S2. The Chair noted potential limited amendments but that these were unlikely to impact either interoperability or comparability of the ISSB sustainability standards.
- 9. It was noted that the TAC was currently consolidating and reviewing tentative recommendations before submission of final endorsement recommendation to the Secretary of State in December 2024.
- 10. The UKEB Technical Director, as a member of the Policy Implementation Committee (PIC), provided an update on the progress of the PIC. It was noted that the PIC was considering the ISSB Standards from a public policy perspective and that the minutes of those meetings were available via [the .gov.uk website](https://www.gov.uk).

## Climate-related and Other Uncertainties in Financial Statements

11. The Secretariat provided an overview of the IASB's *Climate-related and Other Uncertainties* Exposure Draft (ED) project. The ED contained eight illustrative examples which indicated how an entity could apply the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.
12. It was noted that as the ED did not propose to change any accounting standards the UKEB would not be formally adopting the amendments for use in the UK. However, it decided to conduct an influencing project due to the potential impact on stakeholders and to ensure that it could be relayed to the IASB ahead of the finalisation of the project.
13. In relation to the draft UKEB position about the risk of potential over-reliance on IAS 1 paragraph 31, members commented that:
  - a) It would be useful if the IASB also referred to paragraphs 17 (c) and 112 (c) of IAS 1 as these had specific disclosure requirements, in relation to the first two examples in the ED.
  - b) Paragraph 31 could be improved by emphasising that materiality decisions should be based on both quantitative and qualitative aspects.
  - c) Disclosure of a lack of material effect in the financial statements would be useful where an entity was in an industry with significant transition impacts or where it had created an expectation of financial statement impacts in the near to medium terms.
  - d) It was critical that the financial statements were able to stand on their own without reliance or dependency on information in other general purpose financial reports.
14. Members discussed whether an additional requirement in IAS 1 to disclose sources of estimation uncertainty with a significant risk of material adjustment to the carrying amount of assets and liabilities after more than one year, with a description of the nature of the risk, and qualitative factors would be a useful prompt for preparers. Members commented that:
  - a) Paragraph 125 of IAS 1 to be adequate and effective for near term risks however, the disclosure of financially material medium term estimation uncertainty in the financial statements was generally absent in practice.
  - b) It would be helpful if preparers disclosed qualitative information on material uncertainties after more than one year in the financial statements as this was equally important to users.
15. Members considered that the principles in the illustrative examples could be applied across a wide range of uncertainties but that examples on topics other than climate would also be useful.

16. It was considered that examples would be more effective if there was financial jeopardy included which resulted in an impact on the financial statements.
17. Most members supported the UKEB's suggestion that in addition, the examples should be published together in a single document and that standalone examples were helpful but that walk-through examples would also be beneficial as educational material.
18. Members did not consider that transition provisions would be required as the accounting standards had not changed and did not perceive any significant costs for users.
19. The Secretariat noted the additional connectivity illustrative examples presented at the September 2024 World Standard Setters Conference. Members considered the timing of the publication confusing as they were not in scope of the ED but considered them likely to be helpful.

## Statement of Cash flows

20. The Chair welcomed IASB technical staff member Nick Barlow as an observer with speaking rights for this session.
21. UKEB Secretariat informed members that the IASB added a project on the Statement of Cash Flows and Related Matters to its research pipeline following feedback on its Request for Information: Third Agenda Consultation. They outlined the key areas identified by the IASB, and some relevant UK research.
22. Members were asked for their views on the matters identified. During the ensuing discussion, a range of views were expressed. However, the importance and usefulness of the Statement of Cash Flows was a common theme.
23. Some other key themes to emerge included:
  - a) The usefulness of the reconciliation of net debt in addition to the cash flow statement.
  - b) A desire to see consistency in classification of various types of cash flow, and stronger linkages with the other primary financial statements. This may require updating some definitions in IAS 7 *Statement of Cash Flows*.
  - c) Concerns that any attempt to separate growth and maintenance cash flows would be arbitrary.
  - d) The importance of concepts such as working capital and free cash flow, though they are difficult to consistently define, and may be better thought of as alternative performance measures.
24. Members agreed that the Statement of Cash Flows for financial institutions was not as useful as for other entities but were uncertain of any specific changes in the short term that would provide significant improvement.

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25. Members indicated an interest to be kept informed about future UKEB research on the topic, and potential participation in that research.

### **Horizon scanning**

26. The Chair invited members to discuss any current or emerging concerns.
27. A member noted that the treatment of a gain or loss on discounted provisions under IAS 37 was potentially unclear and there appeared to be diversity in practice.

### **A.O.B.**

28. The Chair advised that Nicole Carter had resigned, that the IAG was seeking new members and encouraged members to promote the group to their networks.
29. The Secretariat requested that members encourage their networks to attend a user roundtable to share their views on the IASB's proposals in its ED *Provisions—Targeted Improvements*, scheduled to be held in February 2025.
30. The next meeting will take place on Monday 3 February 2024.

## **END OF MEETING**