Summary of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG) meeting held on 1 July 2024

No.	Agenda Item
1	Welcome and introductions.
2	Endorsement: Amendments to the Classification and Measurement of Financial Instruments.
3	Influencing: Exposure Draft *Business Combinations–Disclosures, Goodwill and Impairment* – Draft Comment Letter
4	Influencing: Exposure Draft Updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (catch up ED)
5	Influencing: Exposure Draft *Contracts for renewable electricity* – Draft Comment Letter
6	Preparation for the Accounting Standards Advisory Forum (ASAF) meeting: • Intangibles Scoping discussion. • Provisions – Targeted Improvements.
7	Horizon scanning.
8	A.O.B.

Present	
Name	**Designation**
Pauline Wallace	Chair, UK Endorsement Board
Tony Clifford	UK Endorsement Board member and AFIAG Chair
Seema Jamil-O'Neill	Technical Director, UK Endorsement Board
Andrea Allocco	AFIAG member
Andrew Spooner	AFIAG member
Chris Smith	AFIAG member
Claire Needham	AFIAG member
Danielle Stewart OBE	AFIAG member
David Littleford	AFIAG member
John Boulton	AFIAG member
Moses Serfaty	AFIAG member
Richard Moore	AFIAG member
Sharon Machado	AFIAG member

Apologies: Sandra Thompson

Relevant UKEB Secretariat team members were also present.

Welcome

1. The Chair welcomed members to the meeting and announced a change of Chair for the AFIAG. The UK Endorsement Board (UKEB) member, Tony Clifford, had accepted the role of Chair of the AFIAG. The UKEB Chair and the group thanked the outgoing Chair, Sandra Thompson, for her service over the previous two years.

Endorsement: Amendments to the Classification and Measurement of Financial Instruments

2. The UKEB was seeking member views on the amendments related to the recognition and derecognition of financial assets and financial liabilities, in the recently published *Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments* (the Amendments) to assist with the endorsement work on the Amendments. The discussion focussed on corporate entities. The impact on financial services firms will be discussed with the Financial Instruments Working Group (FIWG).

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

    a) Members were not aware of any significant concerns with the Amendments. They expect a pragmatic approach to implementing any necessary changes.

    b) Members did not expect the Amendments to give rise to significant extra cost. To the extent additional cost is incurred, this would likely be around the time of implementation, and not ongoing.

    c) No objections were raised to the implementation date of January 2026. The fact there is no requirement to restate comparatives was considered helpful in this regard.

    d) Members were still considering whether a "cash-in-transit" (or similar) entry will be expected of those not using the new alternative to settlement date.

    e) It was agreed the standard had not changed the recognition and derecognition of financial assets. It was noted that new material on this topic was included in the Basis for Conclusions of the standard. However, the UKEB Chair reminded AFIAG that the Basis for Conclusions was not within the scope of the UKEB's endorsement process.

Influencing: Draft Comment Letter: Exposure Draft *Business Combinations–Disclosures, Goodwill and Impairment*

4. The purpose of the session was to seek members' views on the UKEB recommendations in the UKEB Draft Comment Letter (DCL) on the proposed new requirements for business combinations set out in the IASB's Exposure Draft (the 'ED').

5. AFIAG members' previous feedback on the IASB's tentative decisions included in the ED, had been considered in preparing the DCL.

Proposed amendments to IFRS 3 *Business Combinations*

6. Overall, AFIAG members supported the UKEB recommendations in the DCL. In the ensuing conversation, the following points were made:

   a) '*Strategic*' *business combinations* – agreement with the UKEB proposal that the IASB should not use the term '*strategic*' to describe the most important acquisitions, albeit members suggested '*significant*' ('*major*' was suggested in the DCL).

   b) *Rebuttable presumption* – agreement with the UKEB proposal that entities be able to rebut that an acquisition is 'strategic' where it meets at least one of the proposed quantitative or qualitative thresholds. However, one member noted it may not be appropriate to refer to, in the rebuttal, the proposed description of a 'strategic' business combination per the Basis for Conclusions (BC54), since all acquisitions should be made with the intention of achieving the overall business strategy.

   c) *Exemption* – members noted their support for most of the UKEB suggestions with regards to the seriously prejudicial exemption including:

      i. adding '*in extremely rare cases*' similar to the wording of the seriously prejudicial exemption in IAS 37 *Provisions, Contingent Assets and Contingent Liabilities.*

      ii. adding *illustrative examples* of disclosures for circumstances in which it would be appropriate to use the exemption, to accompany the proposed application guidance (which currently includes a non-exhaustive list of factors when it should not be used).

      iii. not requiring *the reason for invoking the exemption* to be disclosed, disclosing the reason itself may be seriously prejudicial.

7. With regard to UKEB support in the DCL for the IASB's proposed quantitative information on expected synergies, which would be required for all 'material' business combinations, members were less supportive of the IASB proposals and the following concerns were raised:

a) *Location* – given the forward-looking nature of the information, it was better suited to disclosure as part of management commentary.

b) *Relevance of information* – not all material acquisitions are driven by the achievement of synergies; e.g., it may be to access new technology. The IASB should require the disclosure only if such synergies were part of the assessment for the acquisition price. Information on expected synergies should not be created solely for the purpose of disclosing in the financial statements.

c) *Auditability* – forward looking information can be challenging to audit.

d) *Proportionality & availability of information* – it is unreasonable and disproportionate to ask small companies to disclose this information, therefore the IASB could limit the scope of this requirement to listed entities, similar to the requirements in IFRS 8 *Operating Segments.*

Proposed amendments to IAS 36 *Impairment of Assets*

8. Overall, AFIAG members supported most of the UKEB recommendations.

9. Members had some concern regarding the IASB proposal to permit cash flows from uncommitted restructurings and asset enhancements in the value in use (VIU) calculation, when such cash flows are included in internal budgets and forecasts. These concerns included:

a) The IASB's proposal is moving away from the conceptual framework for determining recoverable amount, and could incentivise entities to use fair value less cost of disposal (FVCLD) to determine the recoverable amount (where currently IAS 36 requires the recoverable amount to be calculated as the higher of FVLCD and VIU).

b) This proposal may make the impairment test less robust by increasing the opportunity for management over-optimism and may further delay impairment.

10. Members did not disagree with the UKEB recommendation to disclose the amount of headroom for a cash-generating unit (CGU) containing goodwill, where the headroom is marginal. However, one member commented that the existing requirements under IAS 1 *Presentation of Financial Statements* to disclose key judgements, assumptions and other sources of estimation uncertainty, and under IAS 36 to disclose the headroom in the CGU, already require such a disclosure. Other members observed that regulators often observe a lack of sensitivity analysis disclosure, so including a specific requirement to disclose headroom information would ensure that users are provided with useful information.

11. With regards to the IASB clarifications as to how goodwill should be allocated, members had concerns that this would not address shielding of goodwill. Most

members considered that the proposed disclosure requirements would increase audit costs.

Next steps

12. The feedback will be considered in preparing the UKEB's Final Comment Letter, for discussion at the July 2024 UKEB meeting.

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

13. 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.

14. 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*.

15. 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.

16. The UKEB Secretariat asked AFIAG members for feedback on the proportionality of the disclosures expected to be retained in the catch-up ED. In the ensuing discussion, the following points were made:

    a) In general, it would be rare for eligible subsidiaries applying IFRS 19 to make use of MPMs.

    b) The disclosures for MPMs are extensive and inconsistent with the objective of a reduced disclosure framework. One member supported relief from the MPMs disclosures for subsidiaries applying IFRS 19.

    c) On cross referencing to IFRS 18, one member noted that this approach is inconsistent with the objective of IFRS 19 as a stand-alone disclosure standard.

Influencing: Draft Comment Letter: Exposure Draft *Contracts for renewable electricity*

17. The UKEB Secretariat introduced a brief summary of the contents of the Exposure Draft (ED) and of the UKEB's Draft Comment Letter (DCL). In relation to the scope of the ED, and the 'own use' proposals, members made the following observations.

    a) In general, members supported the direction taken in the ED, and did not agree with the DCL position that the 'own use' amendments for PPAs should be abandoned.

    b) One member commented that the 'own use' requirements generally had stood up well since their introduction but, without amendment, they risked requiring what many considered inappropriate accounting for the type of renewable electricity contracts that are becoming more widespread.

18. Some members agreed that, as drafted, the IASB proposals would not apply to a number of renewable electricity contracts. There was some discussion about whether this would result in some contracts having to be fair valued, whereas other contracts transferring more volume risk would be treated as executory contracts.

19. The following points were made on other aspects of the proposals in the ED:

    a) In relation to the proposed effective date, there was general agreement that making this effective for periods beginning on or after 1 January 2025 would be challenging, in particular as gathering the information for the disclosures may be challenging. There was support for the position in the UKEB DCL of an effective date of accounting periods beginning on or after 1 January 2026, with early adoption permitted.

    b) A number of members voiced concerns that the disclosures were disproportionate and would be a significant burden. Some felt that elements of this information may fit better in the sustainability report and did not belong in the financial statement disclosures.

    c) Members commented that requiring the disclosures for all contracts, regardless of whether they met the own use criteria or not, seemed odd. It was also noted that the level of information seemed at odds with what is required for other supply contracts, which can also be quite complex. One member noted that if the IASB believes these contracts meet the own use criteria, it should not be necessary to disclose their fair value or provide additional disclosures.

    d) It was noted that the proposed disclosures in relation to hedge accounting would be useful, as hedge accounting using a variable notional value is unusual.

Preparation for the Accounting Standards Advisory Forum (ASAF) meeting

Intangibles scoping discussion

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

21. Members were asked for their views on the possible objective and scope of the IASB's Intangible Assets project. Key themes emerging from the discussion included:

    a) The standard needs to be modernised and considered comprehensively. However, members would like to see an approach that is staged in a way that does not take many years to see improvements implemented.

    b) It is clear members believe that "investment intangibles" is an important area of focus, which would benefit from a principles-based approach, rather than focusing on specific types of intangibles.

    c) Many members believe that the project could be wider than just IAS 38 *Intangible Assets* and could consider the overlap with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 3 *Business Combinations*.

22. Members were also asked for their views on what approach the IASB should take to its Intangible Assets project.

    a) There was strong consensus among this group that an 'early evaluation' approach should be taken initially. It would be an opportunity to identify "quick wins" and then think about larger issues.

    b) Members were not keen on an approach that focuses on types of intangibles, as this could lead to unintended inconsistency in the future.

    c) While members felt that a phased approach would be useful to support quick wins, this should not be based on a "disclosure first" approach. Rather, it should identify principle-based solutions that would address the areas of most concern/diversity.

Provisions – Targeted Improvements

23. The IASB is considering amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The UKEB Secretariat provided a brief update on the IASB tentative decisions to date, focusing on those related to the liability definition and

the 'present obligation recognition criterion', as well as discount rates. The discussion would inform the UKEB's response at the July 2024 ASAF meeting.

24. Members generally welcomed the IASB efforts to improve IAS 37. One member noted that, fundamentally the IASB's project was addressing areas where inconsistencies had been noted in existing practice. That member also welcomed the withdrawal of IFRIC 21 *Levies*.

25. Another member highlighted the importance of analysing the final wording when the exposure draft is published. That member noted that the proposed clarification which breaks down the present obligation recognition criterion into three conditions, by itself, might not be fully successful. It needs to be accompanied by suitable examples and/or application guidance to facilitate understandability and consistent application.

26. As part of the discussion of the IASB tentative decision on discount rates, it was noted that different IFRS Accounting Standards require the use of different discount rates. One member noted that in his view, it is conceptually right to use different discount rates for different circumstances (such as discounting cash flows for purposes of an impairment assessment of long-term assets vs discounting cash flows for measuring a provision). However, it was also noted that the basis for IASB's use of different discount rates in different circumstances was not always clear.

27. Another member noted that moving to a risk-free rate for measuring a provision was not objectionable but suggested the IASB assess the risk of potential unintended consequences. Interaction with IFRS 3 *Business Combinations* in the case of provisions acquired as part of a business combination was noted. The different measurement bases under both standards could give rise to potential 'day 2' gains or losses for those provisions.

28. The UKEB Secretariat noted that the IASB expects to publish an exposure draft in Q4 2024, with a 120-day comment period.

Horizon Scanning

29. The Chair opened the session and asked for member views on potential emerging issues.

30. A member raised the issue of "corporate wrappers", which can make it unclear whether an entity is selling a subsidiary, or selling asset(s). It can also be unclear whether certain features of these transactions should be considered debt or equity. In the ensuing discussion the following points were made:

    a) This issue is considered to be a tax driven issue in the UK.

    b) It is seen most often in private equity transactions, which can be complex and innovative.

c) Accounting firms usually treat such transactions on a case-by-case basis.

d) It is difficult to see how standard setting could successfully address all possible structures for such transactions, the form of which continues to evolve.

A.O.B.

31. Members were reminded of the requirements of the pre-election sensitivity period.

32. Members were asked about a recent submission to the IFRS Interpretations Committee "Accounting for corporate guarantee contracts issued by the Investor entity in relation to obligations of its joint venture in its separate financial statements". Members observed that while the question highlighted some broader uncertainty around the boundaries of the relevant standards (IFRS 9, IAS 37, IFRS 17), the particular fact patterns were not a significant issue in the UK. While such arrangements may exist, there have not been concerns about accounting outcomes or diversity in practice.

33. The Chair announced that surveys related to the IFRS 18 *Presentation and Disclosure in Financial Statements* project would be released later in the month. Members were asked for their assistance in raising awareness of this with their networks, and also in completing the survey aimed at accounting firms.

The next meeting will take place on 7 November 2024.

END OF MEETING