

Summary of the Financial Instruments Working Group meeting held on 30 January 2023 from 3.00pm to 5.30pm

Present	
Name	Designation
Peter Drummond	Chair, FIWG
Alan Chapman	FIWG member
Brendan van der Hoek	FIWG member
Conrad Dixon	FIWG member
Fabio Fabiani	FIWG member
Helen Shaw	FIWG member
Kumar Dasgupta	FIWG member
Mark Randall	FIWG member
Mark Spencer	FIWG member
Richard Crooks	FIWG member
Robbert Labuschagne	FIWG member
Sarah Bacon	FIWG member (by dial-in)
Silvie Koppes	FIWG member
Ian Mitchell	Observer

In attendance	
Name	Designation
Pauline Wallace	Chair, UK Endorsement Board (by dial-in)
Giles Mullins	UK Endorsement Board (by dial-in)
Sandra Thompson	UK Endorsement Board (by dial-in)

Apologies: Tim Dee (Observer)

Relevant UKEB secretariat team members were also present.

Welcome and Introduction

1. The UKEB's Financial Instruments Working Group (FIWG) held its inaugural meeting on 30 January 2023.
2. The UKEB Chair and the Chair of the FIWG welcomed the members of the Working Group. Members introduced themselves to the Group.

UKEB context, role and remit

3. The FIWG heard presentations from the FIWG chair and UKEB Secretariat on the following topics:
 - a) The role and remit of the UKEB;
 - b) The role and remit of the Working Group; and
 - c) The role and responsibilities of the Working Group members.

Agenda setting, dates and papers

4. FIWG members agreed the due process for agenda setting, changes to appointment and other relevant matters set out in the Terms of Reference.
5. FIWG members approved the draft forward agenda, which suggested the following as potential agenda items:
 - a) IASB Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*.
 - b) IASB Post -implementation Review of IFRS 9 Impairment requirements.
 - c) Financial Instruments with Characteristics of Equity.

6. Members agreed to meet on 24 April 2023. It was also agreed that the UKEB Secretariat would finalise dates and send invitations for proposed additional meetings between March and November 2023.

Horizon Scanning

7. In addition to those matters identified on the draft forward agenda, FIWG members identified the following potential issues that may merit monitoring and further discussion in the coming months:
- a) Macro hedge accounting (IASB Dynamic Risk Management project).
 - b) Crypto currencies (e.g., digital currencies backed by central banks).
 - c) ESG – carbon credits.
 - d) IFRS 9 issues, including derecognition of financial instruments and amortised cost measurement (IASB pipeline research project to focus on modifications of financial assets and liabilities, the application of the effective interest method, the interaction of these two areas) and interaction with the PIR IFRS 9 Impairment.
 - e) High-level of inflation and effects on financial reporting.
 - f) Implementation of IFRS 9 by insurers.
 - g) Climate risks and potential interactions with impairment requirements and fair value measurement.
 - h) Other potential areas of interest:
 - i. Supplier finance arrangements.
 - ii. Primary financial statements.
 - iii. Lack of exchangeability.
8. It was noted that the above items will be assessed and prioritised, identifying issues potentially requiring standard-setting from those that are implementation/operational issues.
9. From time to time, the UKEB Secretariat might request FIWG views on specific IASB projects (such as Primary Financial Statements), where input might be needed from the financial services industry.
10. For projects not on the FIWG agenda, members were encouraged to share their views with the UKEB Secretariat, who will channel them to the relevant Secretariat teams to be considered as part of their work.

Technical Discussion

11. FIWG members were asked to share views on certain aspects of the expected IASB Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (see paragraphs below).
12. During the meeting, it was acknowledged that the final wording of the Exposure Draft is needed to fully understand the implications of the IASB proposals. Therefore, the focus was to gather the FIWG's preliminary views and identify potential areas of concern ahead of the publication of the Exposure Draft.

Expected *Amendments to the Classification and Measurement of Financial Instruments*

Electronic Cash Transfers

13. The UKEB Secretariat provided the following context:
 - a) The IASB has considered the IFRS Interpretations Committee discussions and respondents' comments on the Tentative Agenda Decision Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9). Instead of ratifying the Tentative Agenda Decision, the IASB decided to explore narrow-scope standard-setting.
 - b) As a result, the IASB is expected to introduce an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met. The scope for the accounting policy choice will be limited to the derecognition of financial liabilities when payment is using electronic payment systems.
14. In the discussion, the FIWG raised the following points:
 - a) The final wording in the exposure draft is needed to fully understand the implications for both derecognition of financial assets and financial liabilities.
 - b) Some members questioned whether symmetry is expected between the accounting for the derecognition of a financial liability and the related financial asset of the counterparty? Would the counterparty recognise a separate two-day receivable or a cash equivalent? It was noted that if asymmetry was created, it could potentially raise issues on consolidation.
 - c) Questions were raised about potential implications for payments using credit cards and for payments with cheques.
 - d) Concerns were expressed regarding the qualifying criteria for applying the accounting policy choice on derecognition of financial liabilities, such as:

- i. Some noted the qualifying criteria seemed overly complicated and might be more effective if focused purely on timing (i.e. allowing the accounting policy choice for derecognition of financial liabilities settled using electronic payment mechanisms with very short settlement periods).
 - ii. There was also a recommendation that the word 'practical' be added to the first criterion so that it reads '*the entity does not have the practical ability to withdraw, stop or cancel an electronic payment instruction*'. Such amendment would align it to the second criterion '*the entity has lost the practical ability to access the cash...*'
 - iii. There was also a call for a definition of 'payment mechanism'.
- e) It was noted that an assessment of the likely costs of implementation compared to the perceived benefits from the proposals might be needed.

Contractual Cash Flow Characteristics

15. The UKEB Secretariat provided a high-level overview of the expected clarifications of the contractual cash flow characteristics assessment and asked for the FIWG's early thoughts ahead of the publication of the IASB Exposure Draft.
16. In the discussion:
- a) Some FIWG members noted that, for certain scenarios, it is currently unclear at what level in the reporting group the contractual cash flow characteristics assessment should be performed and asked for guidance as to how to interpret 'borrower'.
 - b) Some members requested additional, more sophisticated, examples that present the corresponding analysis against each of the proposed criteria and the resulting conclusion.
 - c) Members noted concerns about potential unintended consequences for non-ESG loans, highlighting the need for testing the proposals once the exposure draft is published.
 - d) Members noted concerns that the disclosure requirements seem quite generic and raised questions as to whether variability such as that arising from benchmark rates would be captured by the disclosure requirements.

AOB

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