UK Endorsement Board

Meeting summary of UKEB's Investor Advisory Group meeting, 10 June 2024

No.	Agenda Item
1.	Introduction
2.	Business Combinations - Draft Comment Letter
3.	Exposure Draft to amend IFRS 19
4.	Intangibles – project scoping
5.	Power Purchase Agreements – Draft Comment Letter
6.	Sustainability Disclosure TAC Update
7.	Horizon scanning
8.	A.O.B.

Present	
Name	**Designation**
Paul Lee	Chair, IAG
Christopher Bamberry	IAG member
Louise Dudley[1]	IAG member
Rupert Krefting	IAG member
Alastair Drake	IAG member
Stanislav Varkalov	IAG member
Nicole Carter	IAG member
Tony Silverman[2]	IAG member
James Vane-Tempest	IAG member
Tom Simmons[3]	LSEG Observer
Pauline Wallace	Chair, UKEB
Seema Jamil-O'Neill	Technical Director, UKEB

[1] Left the meeting at15:00
[2] Joined meeting at 14:00
[3] Left the meeting at15:00

Present	
Name	**Designation**
Nick Anderson	IASB Board member attended the meeting for the first agenda item only.
Ian Melling	UKEB Preparers Advisory Group members attended the meeting for the first agenda item only.
Peter Leadbetter	
Oliver Hexter	
Toby Odell	

Members UKEB Secretariat presented agenda items. IASB technical staff attend the first 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 IAG members, as well as guest members from the UKEB Preparers Advisory Group (PAG), who were invited to take part in discussion on the first agenda item. The Chair also welcomed IASB Board member, Nick Anderson and the IASB technical staff who were also attending for the first agenda item.

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

2. Four members of the UKEB PAG joined the session virtually. The joint session of investors and preparers was held to gather feedback on whether the IASB has struck the right balance in its proposals, between the:

    a) needs of users for improved information on business combinations; and

    b) cost and burden of the proposed requirements to preparers.

3. Both the IAG and the PAG members had previously provided feedback on the IASB's proposals in the Exposure Draft (the 'ED') during their respective meetings in February and March 2024. That feedback was incorporated into the UKEB Draft Comment Letter[4] (DCL) issued for public consultation on 31 May 2024.

[4] The UKEB Draft Comment Letter was published on 31 May 2024 with a consultation period ending 1 July 2024.

4. The IASB technical staff presented the proposals in the ED *Business Combinations – Disclosures, Goodwill and Impairment*[5]. The UKEB Secretariat introduced a summary of the recommendations in the UKEB DCL and invited comments.

Proposed amendments to IFRS 3 *Business Combinations*

Identification of, and proposed disclosures for 'strategic' business combinations

5. IAG members raised a concern that a three-tier approach (i.e., all, material, and strategic acquisitions) may be overly complex[6].

6. There was support for the UKEB recommendation that the IASB use the term 'major', as opposed to the IASB proposal term 'strategic', to describe the most important business combinations.

Thresholds for identifying 'strategic' business combinations

7. IAG members highlighted concerns with the IASB's proposed 'threshold approach' to identifying the most important business combinations for additional disclosure purposes:

   a) operating profit is not an appropriate threshold – most investors look at EBITDA[7];

   b) thresholds may not work for all companies i.e., one size does not fit all;

   c) 10% ratio is too low – 10% of revenue, operating profit, and assets including goodwill may identify too many acquisitions, not just the most important ones. This view was also supported by some PAG members, even though the IASB noted that their field-testing suggested very few acquisitions would be caught by the 10% ratio. One suggestion was to only require disclosure of information for business combinations that require shareholder approval– whilst acknowledging that the proposals affect private and publicly listed entities, using the relevant threshold for shareholder approval in each jurisdiction could reduce the burden on

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5 The IASB published an Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment* on 14 March 2024 with a comment deadline of 15 July 2024.

6 In response to the concern with a three-tier approach, the IASB clarified that the intention was:
   a) to reduce the burden on preparers by not proposing the requirements of subsequent performance be provided for all material acquisitions; and
   b) to mitigate feedback from users on information overload.

7 Whilst the IASB would not use a non-IFRS threshold, such as EBITDA, to determine a subset of business combinations, the IASB acknowledged in the meeting that other stakeholders had also raised concern with using 'operating profit' as defined by the new IFRS 18 standard. The IASB noted that 'Operating profit before depreciation, amortisation and impairment' (OPDAI), which is not a mandatory sub-total, but is a specified sub-total in IFRS 18, may be preferable, due to the recognised volatility of 'operating profit'. OPDAI may also be preferable as the metric excludes profit or loss from equity-accounted associates and joint ventures, and would resolve the issue of impairment potentially distorting the 'operating profit';

preparers. Under UK listing rules the threshold for requiring shareholder approval for an acquisition is 25% of any percentage ratio; and

d) potentially undermining international competitiveness. For example, US GAAP does not have equivalent disclosure requirements for the most important acquisitions; and

e) 10% ratio is too low – 10% of revenue, operating profit, and assets including goodwill may identify too many acquisitions, not just the most important ones. This view was also supported by some PAG members, even though the IASB noted that their field-testing suggested very few acquisitions would be caught by the 10% ratio.

8. One PAG member questioned how the thresholds might practically apply to loss-making or break-even acquirers or acquirees, where 'strategic' business combinations may fall through the net, or acquisitions that are not 'strategic' may be caught.

9. With regards to the UKEB Draft Comment Letter recommendations:

a) rebuttable presumption – this was supported by one IAG member, on the basis that the thresholds, as currently proposed, may capture too much. The member suggested that if entities use the rebuttal presumption inappropriately, users will raise more questions, which should provide a safeguard its over-use;

b) 'series' of strategic acquisitions – one IAG member suggested, where each acquisition is itself below the proposed threshold, assessment of whether each contributes a 'series' should be made over a 12-month period; and

c) market capitalisation threshold – IAG members suggested that the UKEB clarify that this additional quantitative threshold is 'relative' i.e. a percentage ratio, and not 'absolute'.

Disclosures for 'strategic' business combinations

10. Members made the following points with the required disclosures for 'strategic' business combinations:

a) usefulness of the proposed disclosures – whilst users might take the disclosures into account from a qualitative perspective, whether those disclosures provide information about management i.e., judgement, skill at integrating, and overall governance, was questioned by IAG members, who were not convinced that the actual data disclosed would be analysed;

b) framework for open discussions with entities – the disclosures will enable investors to revert back to the entity with more questions about a business combination;

c) increase in audit costs – resulting from more supporting documentation and the anticipated debate with auditors on management's judgements; and

d) location of information – one PAG member suggested the proposed disclosures do not necessarily align conceptually with information in the back half of financial accounts and would be more appropriate in the management commentary.

Quantitative expected synergies in the year of acquisition for all material combinations

11. With regards to the UKEB recommendation in the DCL for a 'measurement period', one IAG member questioned the need for an adjustment period, suggesting that expected synergies would be understood and planned prior to signing the deal.

'Seriously Prejudicial' Exemption

12. IAG members were supportive of the UKEB recommendation in the DCL not to permit aggregation of revenue synergies with cost synergies, due to the potential loss of useful information.

Proposed amendments to IAS 36 *Impairment of Assets*

Simplifications to 'value in use' calculation

Removal of constraint prohibiting the inclusion cashflows from uncommitted restructuring and asset enhancement

13. One IAG member suggested that if 'uncommitted' restructuring cash flows are included in the value in use calculation, then an entity should determine those cash flows as committed, and account for them accordingly.

14. Another IAG member suggested that permitting the inclusion of uncommitted restructuring cash flows is contrary to the objective as it could lead to avoiding or delaying impairment.

Clarifications for allocating goodwill to CGUs

15. Some members questioned whether the clarifications on goodwill allocation to CGUs for impairment testing purposes resolves concerns about entities avoiding impairment by re-pooling CGUs to provide more headroom. Those members questioned whether the current requirements in IAS 36 prohibit such re-pooling, and if not, then that matter should be addressed by the IASB.

Next steps

16. The feedback will be considered for incorporation in the UKEB's Final Comment Letter, to be considered at the July 2024 UKEB meeting.

Exposure Draft to amend IFRS 19

17. The IASB is expected to issue an Exposure Draft on *Updating the Subsidiaries without Public Accountability: Disclosures Standard* (catch-up ED) during July 2024.

18. A brief introduction summarised the latest updates from the IASB, and member views were sought on the expected ED proposals for disclosure requirements relating to:

    a) narrow scope amendments *(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.*

19. The narrow scope amendments in the catch-up ED are mainly expected to remove disclosure objectives.

20. In relation to IFRS 18, the catch-up ED is expected to retain in IFRS 19 substantially all the disclosure requirements, other than Management-defined performance measures (MPMs). For MPMs, the approach is to retain the disclosures by way of cross-reference to those disclosures in IFRS 18.

21. IAG members were asked for feedback on whether, if any, of the disclosures expected to be retained in IFRS 19 can be removed without impacting the usefulness of the financial statements of eligible subsidiaries.

22. IAG members indicated that the focus of their analysis is on the group accounts, and they only consider subsidiaries financial statements on an exceptional basis, if they identify issues in the group accounts requiring further analysis.

23. One member asked about the UKEB position on IFRS 19, given the existence of UK Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). The UKEB Chair said that the Board intend to assess IFRS 19 for endorsement as part of the UK-adopted IFRS. The UKEB Technical Director highlighted preliminary feedback from UK stakeholders indicating that UK listed groups are interested in using IFRS 19 for their unlisted overseas subsidiaries.

24. On the approach for MPMs disclosures, one member noted that eligible subsidiaries are less likely to make use of MPMs.

Intangibles – project scoping

25. The UKEB Secretariat provided a brief update on the UKEB's intangibles research project and the IASB's Intangible Assets project. The IASB has started its own research, with a particular focus on the scope and approach they should take to their future standard setting project.

26. Members were asked for their views on the potential objective and scope of the IASB's Intangible Assets project. During discussion a diverse range of views were expressed. Some key themes to emerge included:

a) The lack of consistency in accounting for intangibles between companies that grow organically and those that grow by acquisition undermines the usefulness and comparability of financial statements.

b) The boundary between goodwill and intangibles should continue to be refined.

c) Accounting shouldn't be trying to bridge the gap between book values and market values, and it may be that sustainability reporting will help fill in some of this information.

d) There needs to be better accounting for emerging intangibles, whether that is done as part of the IAS 38 *Intangible Assets* review or some other approach.

27. Members were also asked for their views on the approach the IASB should take to its Intangible Assets project. There was a clear preference for the "early evaluation" approach that should focus on identifying and pragmatically addressing key problems with IAS 38 on a principled but timely basis, rather than starting at first principles and taking a long time to complete.

Power Purchase Agreements – Draft Comment Letter

28. The UKEB Secretariat introduced the IASB's recent Exposure Draft '*Contracts for Renewable Electricity*' ('the ED'), and explained the position set out in the UKEB Draft Comment Letter, published during June 2024.

29. The Secretariat clarified the nature of the problem the IASB is seeking to address, and the consequences for purchasers of renewable electricity of not meeting the 'own use' requirements in IFRS 9. It was also noted that two IASB board members had opposed the approach set out in the ED.

30. A member enquired as to the impact of the disclosure requirements on producers of electricity, and it was noted that it would be useful to explore this further.

31. Another member expressed broad support for the disclosure proposals in the ED but raised concerns about challenges around measuring these contracts at fair value due to lack of observable long-term prices and noted several potential challenges relating to applying hedge accounting using these contracts.

UK Sustainability Disclosure Technical Advisory Committee (TAC) Update

32. The Chair advised members that he had been appointed as a member of the UK Sustainability Disclosure Technical Advisory Committee (TAC) on behalf of the UKEB and that the papers and meetings would be in public. The TAC's role was to

assess both IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* on a technical basis and then provide independent recommendations on endorsement to the Business and Trade Secretary.

33. A separate committee, the UK Sustainability Disclosure Policy and Implementation Committee (PIC) would coordinate the implementation of any UK sustainability disclosure standards and consisted of UK government and regulatory representatives. The PIC will meet in private, but summary minutes will be made publicly available.

34. It was noted that the TAC would meet monthly and had several technical areas to consider before making a recommendation to the Business and Trade Secretary in December 2024.

35. The Chair agreed to keep the members abreast of developments and that their views may be requested on relevant topics. The IAG secretariat agreed to circulate the agenda and papers for the TAC to the members for their information.

Horizon scanning

36. The Chair invited members to discuss any current or emerging concerns.

37. A member enquired if the IASB intended starting a project on cashflow statements. He was concerned that cashflow statements, particularly for financial institutions were not serving user's needs. It was noted that the IASB's announcement about its work on the project was anticipated in the near term.

38. Another member observed an increasing level of frustration with preparers in relation to the additional disclosure requirements for asset managers [note that these are not disclosures required by IFRS standards]. Significant resources and cost were being incurred for what appeared to be limited benefits. The member considered this was hampering the UK's competitive advantage.

A.O.B.

39. Members were reminded that as a member of a UKEB Advisory Group they should ensure that any content associated with them was consistent with their role.

40. Members were advised that UKEB were seeking banking analysts to discuss the amendments to the classification and measurement of Financial Instruments.

41. The IFRS 18 *Presentation and Disclosure in Financial Statements* project team requested members support to complete a user survey, which would form part of the evidence base for its endorsement work.

42. The next meeting will take place on Monday 4 November, 13:00 – 17:00, 2024.

END OF MEETING