UKEB
UK Endorsement Board

Meeting Summary of UKEB's Accounting Firms and Institutes Advisory Group meeting held on 2 November 2023 from 9.30am to 1pm

Item No.	Agenda Item
1.	**Welcome**
2.	**Progression toward adoption: Primary Financial Statements**
3.	**Influencing: Annual Improvements to IFRS Accounting Standards cycle**
4.	**Influencing: Financial Instruments with Characteristics of Equity (FICE)**
5.	**Horizon scanning**
6.	**A.O.B.**

Present	
Name	**Designation**
Sandra Thompson	UKEB member and AFIAG Chair
Giles Mullins	UKEB member and acting Chair for this meeting ("The 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
James Barbour	AFIAG member
John Boulton	AFIAG member
Moses Serfaty	AFIAG member
Richard Moore	AFIAG member
Sharon Machado	AFIAG member
Hagit Keren	IASB member
Nick Barlow	IASB staff

Relevant UKEB Secretariat team members were also present.

Welcome and Introduction

1. The Chair welcomed members to the meeting, and introduced the representatives of the IASB.

Progression to adoption: Primary Financial Statements

2. The IASB staff gave a presentation on the IASB's forthcoming IFRS Accounting Standard 18 *Presentation and Disclosure in Financial Statements* (IFRS 18), which is expected to published in Q2 2024. The staff provided an overview of the following three main topics within IFRS 18:

    a) categories and subtotals;

    b) management-defined performance measures; and

    c) aggregation and disaggregation.

3. Members were asked to provide feedback on any significant concern(s) with the proposals and to identify the costs and benefits of the requirements.

Categories and subtotals

4. Member views were sought on the new requirements on categories and subtotals. In the ensuing discussion, the following points were highlighted:

   a) In general, the requirements are expected to bring consistency to the allocation of associate or joint venture related gains or losses in the income statement.

   b) There could be circumstances where associates and joint ventures are within an entity's main business activity and therefore more appropriate to allocate them to the operating category in the income statement. However, the IASB's proposals would allocate them to the investing category.

   c) Some system re-engineering or data remapping exercises are expected by companies on initial implementation, though members did not expect this would incur significant costs.

   d) Members welcomed more guidance on the requirements of the categories (i.e. operating, investing and financing), which were expected to be helpful education material for stakeholders.

   e) Some members expected these requirements to bring more discipline and structure to the income statement, providing the preparers an opportunity to re-consider the structure of their financial statements.

Management-defined performance measures (MPM)

5. The UKEB Secretariat invited views on the new IASB requirements on management-defined performance measures. In the ensuing discussion, the following points were highlighted:

   a) The MPMs could be useful information and provide more transparency on the management's view.

   b) One member noted that the requirements on the effects of tax and non-controlling interests (NCI) in the MPM reconciliations could lead to additional work, but not necessarily useful information. Another member welcomed more guidance around these requirements.

   c) MPMs do not capture all profit-related performance measures because some of them are not directly related to the line items in the income statement.

6. On the interaction between ESMA requirements and the MPM requirements members noted the following points:

   a) The compliance with the MPM requirements should result in the compliance with the ESMA requirements.

   b) The possibility that ESMA guidance may be revised accordingly as the new requirements come into effect.

   c) The IASB team highlighted discussions with regulators which indicated that the MPMs guidance is consistent with the ESMA guidance.

   d) A member wondered about the clarity of the guidance on the scope of the measures included in other public communications.

Aggregation and disaggregation

7. The UKEB Secretariat invited views on the new requirements on aggregation and disaggregation.

8. Some members considered that the new requirements could improve financial reporting by leading to more standardisation, consistency, and higher quality aggregated items on the financial statements. However, they considered more communication is needed to encourage the preparers to re-consider the aggregation and disaggregation of the line items in their financial statements.

Specified expenses by nature

9. The following points were highlighted during the discussion on the disclosure requirements of specified expenses by nature:

   a) The disclosure of specified expenses by nature could be difficult or impossible to prepare, although this approach was noted as a practical solution for additional transparency for the users of financial statements.

   b) The IASB team highlighted that the required information for all five expenses should already exist as they are currently required in the existing IFRS Accounting Standards.

   c) One member observed that the line item *cost of sales* in the income statement could include all the five specified expenses. Another member observed diversity in practice on the calculation of *cost of sales* and expected the diversity in practice to continue in the basis of preparing the disclosure.

   d) The disclosure of write down of inventory could include impairment, lead to potential double counting, or include provision adjustments, which may not lead to useful information.

10. The Secretariat thanked the members for their input. The Chair thanked the IASB project team for the presentation.

Influencing: Annual Improvements to IFRS Accounting Standards cycle

11. The UKEB Secretariat project team provided background information on the Exposure Draft (ED) *Annual Improvements to IFRS Accounting Standards– Volume 11* (Annual Improvements) which includes eight proposed amendments to a number of IFRS Accounting Standards.

12. The members indicated their view that the proposed amendments are straightforward and did not have any significant concerns about the proposals in the ED.

13. One member noted a minor point related to macro hedging, namely that some first-time adopters of IFRS Accounting Standards are not prohibited from applying the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* if they have hedges for open portfolios (macro hedge accounting). Therefore, the word "conditions" in the current requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* could still be applicable.

14. The Secretariat thanked the members for their input.

Influencing: Financial Instruments with Characteristics of Equity (FICE)

15. The principal topics expected to be included in the exposure draft (ED) of the Amendments to IAS 32 *Financial Instruments: Presentation* on FICE include the fixed-for-fixed condition, reclassifications, obligations to redeem own equity, contingent settlement provisions, laws and regulations, shareholders' discretion and disclosure requirements. The ED is expected in late November 2023.

16. Members' views were sought on whether financial instruments with characteristics of equity were prevalent outside banking and insurance, and, if so, in which sectors. Members considered that these instruments were common, for example, in companies backed by private equity, pharmaceutical start-ups and smaller AIM-listed companies.

17. The Secretariat asked more generally for members' views on the proposals. In the discussion, the following points arose:

    a) Overall, members welcomed the project, as it sought to clarify issues that arose ever more frequently, as due to the types of preparers involved, the financial reporting implications of issuing such instruments were not necessarily fully understood.

b) That the proposed amendments did not appear to address the lack of clarity on the scope of IAS 32 and its interaction with those of IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payments.*

c) Some corporates were currently following guidance within accounting firms' manuals in a number of areas that the IASB had proposed to address. It would be preferable to have such guidance included within IAS 32.

d) For preparers whose current practice was not aligned with the proposals, significant work could be required on transition. Full retrospective application of the proposals on contingent settlement provisions and reclassification could potentially prove especially challenging.

e) Application issues were likely to arise in relation to specific wording, leading to unintended consequences.

18. The Secretariat asked for detailed comments on specific topics. In the discussion, members made the following points:

a) It was unclear how the proposed requirements for measurement of financial liabilities within the scope of IAS 32.23 should be applied. It was straightforward to ignore probability, but it may be more difficult to ignore timing, and doing so could lead to illogical outcomes.

b) One member welcomed the proposed requirement to measure contingent settlement provisions at the maximum required to be paid, however, going on to caution that they could lead to illogical outcomes in some instances.

c) Some members considered that reclassifications were not common, but clarity in that area remained welcome.

d) That disclosure could be generally improved in relation to financial instruments with characteristics of equity.

Horizon Scanning

19. Members discussed emerging financial reporting issues as part of a session on horizon scanning and identified the following potential issues for monitoring:

a) A member noted that it is becoming clear that the implementation of Pillar Two (*International Tax Reform: Pillar Two Model Rules – Amendments to IAS 12*). requirements will be challenging for preparers. Subsequent discussion indicated that Pillar Two disclosure requirements are no longer a key concern, although groups will still need to work out the extent they will be affected by Pillar Two to produce the disclosures. It was also noted the current requirements for Pillar Two disclosures are likely to continue for some time, as different jurisdictions are at different stages in making the necessary amendments to legislation for the Pillar Two requirements.

b) A member noted an increasing UK trend in structured transactions for renewable energy assets creating a risk of inconsistent accounting treatment. Assets such as wind turbines or solar panels could be sold to a subsidiary or other entity, the shares of which were subsequently sold to a third party. Depending on the fact pattern there can be grey areas as to which accounting standard should apply to the proceeds of such transactions. A question with a similar a fact pattern had been raised with IFRIC[1] some years ago, but ultimately it was decided the IASB would not add a narrow scope amendment project to address this matter to its work plan. Subsequently these transactions have become more prevalent in the UK.

c) A member reported that they are receiving questions about how the changes arising from the *Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures* project ("SWPA") would fit into the UK reporting framework. The Chair noted that the UKEB is required to consider for adoption all amendments to IFRS accounting standards. The subsequent discussion noted the following:

   i. The UK Companies Act 2006 permits the use of either UK GAAP or UK adopted IFRS for financial reporting purposes, subject to certain qualifying criteria.

   ii. The UK GAAP accounting standard FRS 101 *Reduced Disclosure Framework* is available to UK registered companies. So, if the UKEB were to adopt the IFRS SWPA standard, it is possible that in future UK entities will have a choice of two reduced disclosure accounting standards, the IFRS SWPA standard and FRS 101.

   iii. It is unclear to members whether there would be widespread UK take-up of the new IFRS SWPA standard. While this standard may improve the consistency or efficiency of financial statement preparation for groups with a significant number of international subsidiaries, UK preparers who currently use FRS 101 (likely to be subsidiaries of UK or overseas groups) may prefer to avoid the disruption in moving away from long-standing reporting practices.

   iv. However, members were of the view that this should not detract from the UKEB commencing adoption work, as international consistency and maintaining the competitiveness and transparency

[1] IFRS Interpretations Committee (IFRIC) Staff Paper "Sale of a single asset entity containing real estate (IFRS 10)", June 2019 and subsequent IASB project Sale of a Subsidiary to a Customer. In June 2020 the IASB decided not to add this narrow scope amendment project to its work plan.

of the UK capital markets would override any concerns in relation to uptake of the standard itself.

v. Members offered to assist the UKEB in a survey to better understand the demand from UK entities for the IFRS SWPS standard.

AOB

20. It was noted that the UKEB had commenced its endorsement project on the Amendments to IAS21*: Lack of Exchangeability*. Members stated they were not aware of any demand in the UK to early adopt the amendments nor raised any substantive matters.

21. The Chair highlighted to members the current UKEB vacancies for board members from accounting firm and preparer backgrounds.

22. The meeting dates and times for the 2024 AFIAG meetings were discussed.

23. The next meeting will take place on 14 March 2024.

END OF MEETING