UKEB
UK Endorsement Board

Summary of UKEB Preparer Advisory Group (PAG) meeting held on 5 March 2024

No.	Agenda Item
	Welcome
1.	Pollutant Pricing Mechanisms ('PPMs')
2.	Influencing: Exposure Draft *Financial Instruments with Characteristics of Equity*
3.	Influencing: Exposure Draft *Business Combinations– Disclosures, Goodwill and Impairment*
4.	Inter-meeting feedback requested from PAG members
5.	Horizon scanning
6.	A.O.B.

Present	
Name	**Designation**
Giles Mullins	Chair, PAG
Seema Jamil-O'Neill	Technical Director, UKEB
Ben Binnington	PAG member
Chris Buckley	PAG member
Ian Melling (virtual) up to and including session 3	PAG member
Jo Clube (virtual) up to and including session 2	PAG member
Luke Kelly	PAG member
Michelle O'Mara (virtual)	PAG member
Oliver Hexter	PAG member
Stephen Morris	PAG member
Peter Leadbetter	PAG member
Toby Odell	PAG member

Relevant UKEB Secretariat team members were also present.
Apologies: Chair, UKEB – Pauline Wallace
PAG members – Jo Clube absent after session 2 and Ian Melling absent after session 3.

Welcome

1. The Chair welcomed the Preparer Advisory Group (PAG) members and advised that Cat Hoad had resigned as a PAG member.

Pollutant Pricing Mechanisms ('PPMs')

2. The UKEB Secretariat introduced the project on PPMs, which is currently on the IASB reserve list. The IASB is currently seeking views from National Standard Setters on whether this project should be prioritised.

3. The Secretariat invited PAG members' views on compliance and voluntary schemes in terms of prevalence, any associated accounting issues and whether the IASB should consider prioritising the project. In the ensuing discussion, the following points were made by members:

    a) Diversity in practice was observed in accounting for both compliance and voluntary carbon credit schemes.

    b) Credits issued under compliance schemes, such as the UK Emissions Trading Scheme or Packaging Recovery Notes, were often accounted for either within working capital or as intangible assets. Sector-specific practice may develop quickly.

    c) Current accounting treatments for voluntary carbon credits included accounting for payments to carbon sequestration projects as donations on a cash basis. As entities made emissions, they then drew down on the certified credits.

    d) Members observed that as target dates for net zero commitments approached, carbon credits were likely to become increasingly prevalent and therefore financially material. This was due to once an entity's net zero commitment target date had passed, carbon emission would need to be recognised as a liability which would require offsetting.

    e) A closely related issue was the use of Renewable Origin Certificates (ROCs) and Renewable Energy Guarantees of Origin (REGOs). One member was aware of an entity that accounted for these mechanisms on a cash basis and while they were not currently financially material, this may change in the future.

4. Given the increasing importance of net zero commitments, PAG members agreed that the IASB should consider prioritising the PPM project.

5. Members recognised the IASB's capacity constraints and suggested that the IASB may consider creating capacity by deprioritising the project on *Business Combinations–Disclosures, Goodwill and Impairment* or absorbing capacity from the discontinued project on *Business Combinations under Common Control*.

Influencing: Exposure Draft *Financial Instruments with Characteristics of Equity*

6. The UKEB Secretariat introduced the recommendations within the UKEB draft comment letter[1] on the IASB Exposure Draft (ED) *Financial Instruments with Characteristics of Equity,* published on 29 November 2023, and invited comments from PAG members. In the ensuing discussion, the following points were made:

   a) Overall, instruments that are difficult to classify as either debt or equity are rare.

   b) Introducing new, brief measurement requirements which diverge from existing measurement standards is not considered useful. For example, application questions would arise, such as whether the discount rate should include own credit. When measuring obligations to redeem own equity and contingent settlement provisions, the common practice of taking timing of redemption or settlement into account provides useful information.

   c) Prohibiting reclassification for reasons other than circumstances external to the contract could give rise to misleading information.

   d) On the 'fixed-for-fixed' condition, PAG members would welcome additional examples on the meaning of 'proportional' written in an accessible way.

   e) If introduced, preparers would likely have to caveat the disclosure on the priority of instruments on liquidation by stating that it was not representative of what would happen on liquidation. However, as the need for this indicated that the disclosure may lack clarity, it may be preferable for users to refer to the terms and conditions of the instruments.

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

7. The UKEB Secretariat introduced the IASB's tentative decisions that were expected to be included in the Exposure Draft (ED) *Business Combinations–Disclosures, Goodwill and Impairment*[2]. The discussion focused on:

   a) proposed amendments to the disclosure requirements in IFRS 3 *Business Combinations*; and

   b) proposed changes to the impairment test in IAS 36 *Impairment of Assets*.

1 The UKEB Draft Comment Letter was published on 7 February 2024 and closed for consultation on 8 March 2024.

2 The IASB subsequently published the Exposure Draft *Business Combinations–Disclosures, Goodwill and Impairment* on 14 March 2024 with a comment period ending 15 July 2024.

8. The Secretariat invited comments from PAG members, to inform the draft of the UKEB Comment Letter in response to the forthcoming IASB ED.

Proposed amendments to IFRS 3 *Business Combinations*

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

9. Support was expressed for not defining synergies, as it was considered to be widely understood, given the existing requirement in IFRS 3[3].

10. However, PAG members expressed concern that the quantitative information required would be:

    a) costly to provide, along with reasonable and supportable information for auditors – as well as increased controls for forward-looking estimates;

    b) highly judgemental – particularly revenue synergies, which could give rise to questions on the impact of inflation, where benefits from synergies expected to last a number of years;

    c) unavailable, due to:

        i. nature of acquisition – some acquisitions, for example in the pharmaceutical sector, are not driven by synergies, but for a product in development, for which there is no guarantee of success, so information would not be relevant or necessarily available at time of acquisition;

        ii. timing of acquisition, e.g. an acquisition completing close to the acquirer's yearend, or acquisition of US listed companies, or a hostile takeover situation, when only limited due diligence has been conducted at the reporting date. Timing may also play a part in commercial sensitivity and use of the exemption;

    d) variable – management's view of expected synergies changes over time. In addition, the price paid for an acquired company might be agreed many months ahead of completion, due to compliance delays, for example awaiting EU commission approval, so synergies expected when the price was agreed have since changed. Indeed, it may be that the acquisition is now a bargain purchase (negative goodwill), and it was questioned how useful synergy disclosures would be in that scenario;

---

[3] Paragraph B64(e) of IFRS 3 *Business Combinations* requires an entity to provide, in the year a business combination occurs: "a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors".

e) difficult to distinguish from underlying growth;

f) difficult to audit – particularly revenue synergies, due to the high level of judgement involved in forward-looking information. To gain audit assurance, quality data will be required to evidence and corroborate why the range of synergies is deemed achievable. One member suggested a very low range would be disclosed to allow sufficient contingency for key unknowns, (e.g. as a result of limited access to the target company) and likened this requirement to the assurance required for the Synergy Benefits Statement (SBS) or Quantified Financial Benefits Statement (QFBS), seen in UK capital markets[4];

g) too granular – examples of disclosure requirements provided by the IASB[5] set an expectation that disclosures should be at a very granular level;

h) commercially sensitive and have unintended consequences – timing of an acquisition might mean the exemption is used more frequently and publishing expected cost-saving synergies would demotivate staff;

i) of limited use to investors and other users – due to a combination of the above factors. It was noted that only a subset of expected synergies, being those available to market participants, would represent the price paid, which might lead to confusing information being provided to users.

Strategically important business combinations

11. Overall, PAG members supported the concept of disclosing information for only a subset of the most important business combinations. However, the ensuing discussion highlighted both suggestions and concerns about:

    a) the definition of the subset of ‘strategic’ business combinations, including the proposed quantitative and qualitative thresholds;

    b) the application of the proposed disclosure requirements.

12. The following suggestions were made by PAG members for defining the subset:

---

4 A QFBS is a quantified statement of synergies expected from a proposed acquisition:
(i) made by the offering company, where the consideration includes shares, quantifying the financial benefits expected to be achieved by the new enlarged group if the offer is successful; or
(ii) made by the target company seeking to defend itself (typically in a hostile takeover transaction) which quantifies the expected financial benefits that will be achieved by the target company from cost savings, other measures, or proposed transactions, which would be implemented if the offer is withdrawn or allowed to lapse.
Such statements are subject to significant regulatory disclosure and reporting requirements under the City Code on Takeovers and Mergers, when made in relation to the takeover of a UK public company. The UK Listing Rules contain similar requirements covering such synergy statements by acquirers for Class 1 transactions.

5 The slides for the *Goodwill and Impairment* breakout session at the September 2022 World Standard Setters conference can be found here. The staff examples referred to can be found on slides 12 and 13.

a) rename the subset – some consider all acquisitions are strategically important, so the name is confusing;

b) introduction of a rebuttable presumption, i.e. a business combination should be presumed to be strategic, unless it can be proven otherwise. Another PAG member, however, suggested this would be more challenging to apply;

c) 'operating profit before exceptional items' might provide a more consist outcome than 'operating profit', as one of the quantitative thresholds[6];

d) the quantitative threshold for revenue, operating profit and assets (including goodwill) might be more appropriately set at 20%.

13. PAG members raised the following concerns about the proposed thresholds:

a) challenges with reworking acquiree financial statements – the quantitative thresholds assume that the acquiree will prepare accounts under IFRS. If not, the acquiree's financials will need to be reworked to provide IFRS comparable figures to determine if strategic. Restating might be difficult, given different accounting policies, assumptions, etc. of the acquiree;

b) consideration paid for a business combination – this is not one of the proposed quantitative thresholds, so if consideration is material, the acquired business might still fall outside the criteria for disclosure;

c) common understanding the qualitative thresholds – it may be difficult to use 'major new line of business' or 'new geographical area', if there is not a common understanding of how each is defined - the guidance in the ED will need to ensure that it is clear that materiality still applies;

d) one PAG member questioned how 'operating profit' would apply for stepped acquisitions;

e) lack of clarity – between identifying material business combinations and 'strategic' business combinations.

14. PAG members highlighted the following challenges with applying the proposed disclosure requirements:

a) unavailability of information due to timing (similar to the concerns raised for the disclosure of quantitative information of expected synergies above);

6 For example, if there was an exceptional item in the year prior to the acquisition, that may cause the acquisition to fall within the strategic business combination category, that under normal circumstances would not have qualified as strategic (or vice versa).

b) disclosure requirements would drive behaviour – management would set non-ambitious targets, to appear in a good light with regards to the subsequent performance and success of the combination. The apparent requirement to disclose some information indefinitely[7] would also drive management behaviour on internal reporting, so that management can stop reporting e.g. specific, as opposed to general, acquisition-date targets will be set, to create opportunity for management to change targets and stop monitoring/reporting against the original acquisition-date targets;

c) sensitivity of information – concerns about reporting certain objectives, such as those related to staff retention. Subsequent disclosure that the metric or target has changed might be destructive to the business, so clarifying circumstances of applying the exemption will be important.

15. One PAG member questioned the interaction between the disclosure requirements for strategic business combinations and the impairment test and asked whether, in such a circumstance where the acquirer reports in subsequent years that the acquisition is not meeting the acquisition-date metrics and targets, the user will look for an impairment.

Key Management Personnel (KMP)

16. One PAG member suggested that CODM[8] was preferable (in line with the IASB's preliminary view) as opposed to the use of KMP proposed in the ED. By using CODM, users know that information reported in internal monthly management packs is consistent with what is disclosed in the financial statements. The PAG member suggested that KMP adds unnecessary complexity and burden.

Location of information

17. PAG members challenged whether the proposed requirements should be disclosed in the financial statements. One PAG member noted that entities do not define what their company's strategy is within the financial statements, so including information about 'strategic' acquisitions within the financial statements is inconsistent[9]. Some PAG members suggested that the proposed disclosures should be included in the management commentary.

---

[7] The proposal is that information will be required to be disclosed for as long as management continue to monitor the performance against the acquisition-date metrics and targets; if management stop monitoring with the first two full years after the year of acquisition, then management would disclose that fact and the reason why they have stopped monitoring.

[8] The term 'Chief Operating Decision Maker' or CODM, as defined in IFRS 8 *Operating Segments* identifies a function, not necessarily a manager, with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Further to the preliminary view to use CODM, the IASB now propose to use Key Management Personnel (KMP), as defined in IAS 24 *Related Party Transactions*.

[9] The Secretariat noted to PAG members that there had been a lot of debate previously about the location of the required information and that the conceptual framework does not prohibit such information from being included in the financial statements, as it is information about the price paid and the price paid is reflected in the financial

Exemption

18. PAG members were pleased to see that an exemption was provided from disclosing certain information in specific circumstances, however, the ensuing conversion highlighted some concerns about the application of the exemption:

    a) commercial sensitivity – the proposed requirement to disclose each item of information for which the exemption has been applied and the reason, may not resolve the concern over commercial sensitivity, since the exemption disclosures could include commercially sensitive information;

    b) heightened scrutiny – resulting from disclosing the exemption is applied.

19. One PAG member noted that they are pleased to see that the proposed exemption is more readily available than the exemption under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, where it can only to be used '*in extremely rare cases*' and was pleased that the IASB had consciously not carried this term into the proposed exemption for IFRS 3.

Proposed amendments to IAS 36 *Impairment of Assets*

Simplifications to 'value in use' calculation

20. There was general support for the proposals to allow post-tax cash flows and post-cash discount rates, since pre-tax rates are generally not observable.

21. However, there was some concern regarding the proposal to remove the restriction that currently prohibits including 'uncommitted' future restructuring in cash flow forecasts. The ensuing discussion highlighted the following points:

    a) delayed impairment – the delayed recognition of impairment losses is one of the concerns of existing IFRS requirements, so it seems counter-intuitive to remove the restriction, as this will likely lead to overly optimistic assumptions in cash flow forecasts and thus further delay impairment;

    b) auditability – difficulty providing auditors with evidence to support cash flows from 'uncommitted' restructuring;

    c) impact of climate-related items on cash flow forecasts, e.g. targets to 2030 and 2050. One PAG member commented it is unclear if there might be an expectation to immediately impair certain assets that are planned to be replaced in the future to meet those targets. Another member suggested

---

statements in the assets and liabilities acquired. In addition, the remit of the IASB includes the financial statements and not the management commentary. Investors generally support the location in the financial statements, due to the assurance provided around such information.

that the existing guidance on the five-year time limit[10] for cash flow forecasts might be helpful in determining what 'uncommitted' future restructuring cash flows should be included.

Other disclosure requirements

22. Most PAG members supported the requirement to disclose in what reportable segment a CGU containing goodwill is included. One PAG member noted that this is currently disclosed voluntarily, as users need this information for transparency.

Next steps

23. PAG members were invited to engage on this topic after the meeting if they had further feedback that they did not have an opportunity to share. The UKEB Draft Comment Letter is expected to be published for consultation in June 2024.

Inter-meeting feedback requested from PAG members

24. The PAG Chair thanked PAG members for their inter-meeting feedback which supported the UKEB's publication of the following documents:

Endorsement projects

a) Supplier Finance Arrangements - Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures Adoption Package (published on 30 November 2023).

b) Lack of Exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates. Draft Endorsement Criteria Assessment (published 5 February 2024).

Influencing projects

c) Annual Improvements to IFRS Accounting Standards – Volume 11 Final Comment Letter and Feedback Statement (published 14 December 2023).

d) Financial Instruments with Characteristics of Equity - Amendments to IAS 32 Financial Instruments: Presentation Draft Comment Letter (published 7 February 2024).

e) IFRS Interpretations Committee Tentative Agenda Decision: Climate-related Commitments (IAS 37) – Final Comment Letter (published 5 February 2024).

---

10 The five-year constraint arises because forecasts for more extended periods tend to lack detail and reliability. However, IAS 36 permits cash flows over a longer period than five years, if management can demonstrate its ability to accurately predict cash flows over a longer period, based on past experience.

25. The Secretariat updated PAG members on the IASB's tentative agenda decision regarding the derecognition of financial liabilities (*Amendments to the Classification and Measurement of Financial Instruments*). This topic had been previously discussed at the June 2022 meeting. PAG members were requested to contact the project team if they thought these amendments would prove a significant hurdle to endorsement for use in the UK.

26. With regard to the Primary Financial Statements project, the Secretariat communicated its intention to request feedback from PAG members on a draft survey that it expects to distribute in the second quarter of 2024. The purpose of this survey will be to obtain views on the impact of the main requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*. The IASB expects to publish IFRS 18 in April 2024.

27. The Secretariat noted than an IASB Exposure Draft on Power Purchase Agreements ('PPAs') is expected in May 2024, and it is anticipated this will be discussed at the next meeting of the Group. PAG members were asked to contact the project team if they had particular experience of current issues relating to PPAs.

Horizon Scanning

28. The Chair asked for PAG member views on issues over the horizon, noting in the last meeting PAG members spoke about sustainability investments.

Reducing disclosure requirements in the financial statements

29. One PAG member commented on the requirement to provide users with continuously more information in the financial statements and suggested that it might be time to ask users what they do not find useful and either remove certain disclosure requirements or consider whether information would be better provided elsewhere, in other communication with investors.

30. The Secretariat highlighted the challenge with potentially removing some disclosures from the financial statements, due to the difference in non-IFRS information provided in different jurisdictions. The financial statements are in scope of the IASB's remit, so the IASB cannot mandate information to be provided outside of the financial statements. The Chair acknowledged that volume of disclosure requirements is an issue that we should consider how to address it.

Intangibles

31. The Secretariat noted its current research on intangibles and the plan to publish two reports in March 2024. The first report will provide feedback on an investor

survey on current accounting requirements for intangibles, and the second report will be on current accounting practice[11].

32. One PAG member suggested that the proposed amendments to IFRS 3 be put on hold until any potential changes to IAS 38 *Intangibles* have been introduced, otherwise IFRS 3 may require further narrow-scope amendments to incorporate changes to IAS 38.

33. One PAG member noted concern for the different accounting treatment of internally generated intangibles, that are then recognised as separately identifiable assets by the acquirer, as part of a business combination. Another PAG member highlighted concern around the diversity of treatment of research and development costs[12].

Post-Implementation Reviews

34. One PAG member noted the upcoming Post-implementation Review (PIR) of IFRS 16 *Leases*, that the IASB has decided to commence in Q2 2024.

A.O.B.

35. The Secretariat advised PAG members that the IFRS Interpretations Committee have received a submission[13] about how an entity presents, in the statement of cash flows (IAS 7), cash payments and receipts related to margin calls on contracts (centrally cleared and 'collateralised-to-market' derivatives) to purchase or sell commodities at a predetermined price in the future. PAG members did not have any comments or observations on diversity in presentation in the UK.

36. The Chair noted the next meeting is scheduled to take place on Monday 17 June 2024.

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

---

11 The UKEB project page where the research reports will be published can be found here.

12 Under IFRS (IAS 38) research costs are expensed. However, IFRS has broad-based guidance that requires companies to capitalise development expenditures, including internal costs, when certain criteria are met.

13 Letter from the European Securities and Markets Authority (ESMA) to IFRS IC dated 19 January 2024