Meeting Summary of UKEB's Accounting Firms and Institutes Advisory Group meeting held on 15 June from 9.30am to 1.30pm

Item No.	Agenda Item
1.	**Welcome**
2.	**Adoption: Supplier Finance Arrangements**
3.	**Influencing: Amendments to the Classification and Measurement of Financial Instruments Exposure Draft (ED)**
4.	**Influencing: IASB/ISSB Connectivity**
5.	**ISSB Request for Information (RFI) – Draft Comment letter (DCL)**
6.	**Provisions**
7.	**Business Combinations Under Common Control**
8.	**Horizon scanning**
9.	**A.O.B.**

Present	
Name	**Designation**
Pauline Wallace	Chair, UK Endorsement Board
Seema Jamil-O'Neill	Technical Director, UK Endorsement Board

Andrea Allocco	AFIAG member
Andrew Spooner	AFIAG member
Chris Smith	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
Aaron Saw	Observer with speaking rights.

Apologies: Sandra Thompson, Claire Needham, Sharon Machado

Relevant UKEB Secretariat team members were also present.

Welcome and Introduction

1. The Chair welcomed members to the meeting.

Adoption: Supplier Finance Arrangements

2. On 25th May, the IASB published its final *amendments Supplier Finance Arrangements* (Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*). The amendments are effective for annual reporting periods beginning on or after 1 January 2024. The period between the IASB publication of the annual amendments and the effective date is unusually short, leading to potential challenges for UK stakeholders and for the UKEB's endorsement work.

3. In accordance with its statutory function, the UKEB is carrying out work to assess whether the amendments should be adopted for use by UK entities. The Draft Endorsement Criteria Assessment (DECA) will be considered at the July Board meeting. Subject to approval, the DECA will be published for open consultation with a 90-day comment period.

4. At the March 2023 AFIAG meeting the members considered the IASB proposed amendments. This session is focused on additional feedback from AFIAG members based on the final amendments, as published by the IASB.

5. Overall, AFIAG members did not express significant concerns in relation to the scope of the amendments.

6. In relation to the specific disclosure requirements in IAS 7.44H (such as terms and conditions, carrying amounts, associated line items in the statement of financial position and range of payment due dates), AFIAG members acknowledged the value of the information required to be disclosed. Some members questioned their proportionality when compared to other aspects of financial reporting. However, they went on to note that such concerns were not significant enough to suggest against endorsement of the amendments.

7. The disclosure objective introduced by the amendments is to enable users of financial statements to assess the effects of supplier finance arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. It was noted that stakeholders' understanding of such disclosure objective will be key in assessing materiality, which would guide disaggregation. The relevance of the disclosures will depend on how aggregated or disaggregated the information is presented.

8. Overall, AFIAG members welcomed the increase in transparency on the use of supplier finance arrangements, the effects on an entity's liabilities and its exposure to liquidity risk.

9. AFIAG members made the following comments in relation to the likely costs and benefits expected to arise as a result of the amendments:

   a) The main benefit is for users of accounts, helping them assess an entity's exposure to liquidity risk.

   b) The costs arising from the amendments are not expected to be significant:

      i. No changes to accounting policies were expected given the amendments do not change recognition, classification or measurement requirements.

      ii. If supplier finance arrangements are material, entities should already be disclosing information such as terms and conditions and non-cash transactions.

10. At the March 2023 AFIAG meeting, questions were raised by members on the potential interaction with the UK Government's *Late Payment Review* and the group was asked whether they had any additional comments. It was noted that there is no direct interaction between the amendments and the *Late Payment*

Review as they have a different policy objective. It was also noted that they are not contradictory.

11. The Secretariat agreed to share with AFIAG members a link to the DECA once it is issued for public consultation. AFIAG members and their networks were encouraged to share their views in response to the UKEB's Invitation to Comment.

Influencing: Amendments to the Classification and Measurement of Financial Instruments

12. The Secretariat introduced the topic, the IASB Exposure Draft (ED) on the *Classification and Measurement of Financial Instruments*.

Derecognition of Financial Liabilities settled with cash using electronic payment systems

13. In response to the question of the different types of electronic cash transfers they saw in use, the AFIAG observed that:

    a) Bank transfers, such as BACS and Faster Payments, were widely used. A member noted that BACs payments allowed the funds to be accessed for a period following the payment instruction being initiated.

    b) Bank transfers scheduled in advance such as Direct Debits and Standing Orders, and credit cards were widely used, but were rarely material in total. Google Pay and Apple Pay could be used in place of all corporate credit cards, but for the purpose of this analysis acted as an intermediary to the underlying payment provider.

    c) Cheques were still in use, although not widely.

14. It is not common for electronic payments to be cancelled once initiated. Members considered the criteria that the cash can no longer be accessed (B3.3.8b) to be more important than the criteria regarding no ability to cancel (B3.3.8a). It was noted the right to cancel should not be perceived as the cash balance being available. There is a distinction between the right to ask for control of the cash back and having control. One member suggested the right to cancel should be removed as a criterion.

15. Members considered that companies were not generally using settlement date accounting for financial liabilities. In the discussion, the following points arose:

    a) The IASB's proposed alternative to settlement date accounting would be unlikely to be used. The complexity (including the need to create exceptions to general policy for a subset of payments, the need for system changes reflecting both settlement date accounting and any exceptions to this)and possible need for legal analysis were considered unattractive.

b) The ability to account for different systems using different options could lead to diversity in practice within a single entity.

c) Auditors can audit reconciling items, so instruction date accounting did not pose issues from that perspective.

Financial assets with ESG-linked features

16. The members highlighted that the “specific to the debtor” criteria for ESG-linked features in the proposals may mean that ESG targets set elsewhere in the corporate group, outside the borrowing entity, may result in transactions not being considered basic lending.

17. Members agreed targets set elsewhere in the group should be permitted when assessing basic lending. During discussion it was noted that often a thinly capitalised treasury company is the borrowing entity. Targets are varied, and can be set quite broadly looking across all or part of the corporate group. In some cases targets could look beyond the group, for example to others in the value chain (e.g. Scope 3 emissions).

Influencing: IASB/ISSB Connectivity

18. The illustrative examples were considered reasonable, but a balance was required between the level of granularity investors may be seeking and the purpose of general-purpose financial statements.

19. It was also recognised that climate risks were consider high on investors agenda and that some investors were making these types of disclosures part of their lending criteria.

20. The group noted examples where they considered the financial disclosures to be adequate and commented that financial statements were not intended to be predictions of possible long-term events.

21. The general view was that materiality was primarily assessed on a quantitative basis and that the circumstances for qualitative climate-based disclosures were less clear.

22. It was observed that there was currently disparity between investor expectations and preparer’s ability or willingness to disclose the potential impacts of climate change which may result in a lack of trust.

23. It was agreed that the IASB and ISSB needed to work closely together regarding connectivity.

24. A member suggested that a potential solution could be to address the climate risks and opportunities in a table in the strategic report including a column showing if and, where relevant, how they were addressed in the financial reports.

25. The AFIAG members considered that this topic was a good area the UKEB to lead on and applauded and encouraged its work.

26. It was noted that all parties were learning at the same time and moving together and that many entities had commitments in the near term i.e., close to 2030 as well as 2050.

27. It was noted that IAS 36 *Impairment of Assets* may need a bridge to the concept of short, medium or longer term of sustainability disclosures.

28. Members considered whether any updates were required to the current Practice Statement on Materiality. It was noted that the IASB had developed helpful context as part of the Management Commentary project and that this could be further developed to support the application of materiality during the transition phase.

ISSB Request for Information – Draft Comment Letter

29. The Secretariat introduced the ISSB's Request for Information (RfI) on its priorities for the next two years. The UKEB is developing a Draft Comment Letter (DCL) in response and seeking feedback from the group to support development of the letter.

30. On the topic of the strategic direction and balance of the ISSB's activities members shared the following views:

    a) On the priorities for the ISSB over the coming two years, there was unanimous support for 'supporting the implementation of ISSB Standards S1 and S2', with little to no interest in any of the other items listed.

    b) Members discussed the role of SASB standards in ISSB Standards, and how this might be operationalised under UK law. It was suggested that their inclusion could create difficulties in a UK context unless they were properly integrated following appropriate due process as set out in the IFRS Foundation's Due Process Handbook.

    c) There were mixed views on the extent to which the ISSB should start new research projects. But, most agreed that any new standard setting projects should not be a focus until S1 and S2 had settled and should instead provide guidance and focus on connectivity and implementation.

31. On the criteria for assessing which matters to prioritise and add to the ISSB's work plan members considered that the criteria were generally fine. One member suggested that interoperability with other international standards, particularly what Europe was doing should also be a consideration.

32. The final area discussed was research. The Secretariat highlighted that, given the UKEB's remit in relation to ISSB standards, this was not an area that the UKEB intended to address in detail as part of its response to the ISSB.

    a) While acknowledging that the UKEB would not comment on this area there was general support for Human Capital as the most relevant research project.

    b) Integrated Reporting was not seen as a priority, with one member questioning whether this was the right time to look at this topic as ISSB standards are still very new.

33. The Secretariat explained that the UKEB's draft response would be published on 23 June 2023 with a 30-day comment period, and members' feedback was encouraged.

Provisions

34. The UKEB Secretariat introduced the topic *Provisions – Targeted Improvements*. The discussion would inform the UKEB's response at the ASAF and CFSS meetings.

35. The UKEB Secretariat provided a summary of the project, noting that it was hard to separate the issues raised by the IASB staff because they were interconnected. The IASB staff had highlighted:

    a) difficulties in disentangling the elements within the present obligation criterion;

    b) dissatisfaction with IFRIC 21 on levies; and

    c) questions related to applying IAS 37 to new climate regulations and commitments.

36. The AFIAG members were asked for their initial impressions as to whether the right problems had been identified, whether these were the priority issues and the right approach to solving them. AFIAG members were generally in agreement that it was important that this project was being undertaken by the IASB to make targeted improvements to IAS 37. One member said that the real challenge was with the practical application of the requirements, noting that IAS 37 provided very little application guidance compared to other standards.

37. Another member agreed that the problems identified were, broadly, the right ones. They were increasingly prevalent, mainly because of the growth of climate-related targets.

38. Some members agreed that a main issue related to the definition of a liability. The UKEB Secretariat confirmed that the IASB staff proposed to clarify the requirements by introducing wording from the Conceptual Framework into the standard. The IASB staff did not think this would lead to different accounting outcomes but would streamline requirements and improve clarity. The UKEB Secretariat said that while the definitions looked different, the main building blocks were the same in each. The Chair queried the basis for the change in definition if it was not going to lead to different accounting outcomes.

39. A member argued that instead of amending IAS 37 the IASB staff should focus on the sorts of transactions that did not fit well in the standard. To deal with the challenge of ending up with many principles for different transactions, the member suggested that the transactions could instead be scoped into different standards.

40. One member noted that the proposal to introduce elements of the Conceptual Framework to help clarify the wording around 'no practical ability to avoid' was not expected to resolve the issue or justify the recognition of a provision over time. Entities would have to either accrue for all bank levies for the 'no realistic ability to avoid period' or wait until the crystallising event. Another member suggested that introducing elements of the Conceptual Framework would lead to this being treated similar to tax provisions, where a tax accrual is made in the interim accounts even though at that stage the exact tax bill is unknown. Recognition of provisions would therefore be based more on expectations because of the lack of practical ability to e.g. exit a market.

41. The AFIAG members all agreed that the IASB should provide guidance on the 'action' that creates a present obligation and how to apply IAS 37 in cases when costs are incurred once certain thresholds are exceeded.

Business Combinations Under Common Control

42. The UKEB Secretariat introduced the session topic and the three options being considered by the IASB for the future direction of the Business Combinations under Common Control project. The options considered were:

    a) Option 1: Develop recognition, measurement and disclosure requirements.

    b) Option 2: Develop disclosure requirements only.

    c) Option 3: Discontinue the project.

43. The UKEB Secretariat asked AFIAG members for their views on:

a) The future path that the IASB should follow on the future direction of the BCUCC project.

b) The prevalence of the different types of BCUCCs in the UK, particularly the proportion of BCUCCs affecting non-controlling shareholders (NCS) and the proportion not affecting NCS.

c) Whether the IASB should prioritise other projects on its agenda.

44. The consensus of AFIAG members was that the BCUCC project should be discontinued. It was considered unlikely that a single solution would work in all jurisdictions. In the UK, accepted practice for such transactions is well established and understood. In this case diversity in practice does not mean users' needs are not being met, as users in different jurisdictions may have different needs.

45. In relation to the prevalence of BCUCCs in the UK, one AFIAG member noted that their firm dealt with such transactions frequently and:

a) Most of the BCUCCs in the UK are reorganisations that do not affect NCS (the proportion was around 80%) and that the accounting for this type of business combinations was not considered burdensome.

b) A significant minority of BCUCCs do involve NCS (the proportion was around 20%) and could lead to some challenging accounting judgements.

Horizon Scanning

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

a) The various projects currently being undertaken by the ISSB.

b) Electricity contract issues, such as the example recently submitted to the IFRS Interpretations Committee. Particular concerns included the diversity in practice, and particular challenges for non-storable, non-financial items. One member noted that although this was an interesting issue it was not clear whether it was creating a problem with financial statements.

AOB

47. The Chair described the process for the final endorsement of amendments to *IAS12 – International Tax Reform: Pillar Two Model Rules*, which the Board would consider in July. The Chair described the process firms could undertake if they wished to submit a response to Draft Endorsement Criteria Assessment (DECA) consultations to support (or not support) the endorsement of accounting standards for use in the UK.

48. The next meeting will take place on 2 November 2023.

END OF MEETING