UKEB
UK Endorsement Board

Summary of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG) meeting held on 14 March 2024

No.	Agenda Item
1.	Welcome and introductions.
2.	Influencing: Power purchase agreements.
3.	Influencing: Pollutant Pricing Mechanisms (PPM).
4.	Influencing: Business Combinations – Disclosures, Goodwill and Impairment
5.	Influencing: Regulatory Assets and Regulatory Liabilities
6.	Horizon scanning
7.	A.O.B.

Present	
Name	**Designation**
Sandra Thompson	UKEB member and AFIAG Chair
Michael Wells	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
John Boulton	AFIAG member
Moses Serfaty	AFIAG member
Richard Moore	AFIAG member
Sharon Machado	AFIAG member

Apologies: James Barbour

Relevant UKEB Secretariat team members were also present.

Welcome

1. The Chair welcomed AFIAG members and thanked them for their inter meeting feedback. This feedback supported the UKEB's publication of the draft comment letter for the Exposure Draft *Financial Instruments with Characteristics of Equity*, and provided feedback to inform discussion at the forthcoming Accounting Standard Setters Advisory Forum meeting.

Influencing: Power Purchase Agreements

2. The objective of the session was to discuss the IASB's tentative proposals on this topic, which are as follows:

    a) To amend the 'own use' exception, detailed at IFRS 9 *Financial Instruments* paragraph 2.4, to permit physical PPAs meeting certain criteria to qualify for that exception.

    b) To amend the IFRS 9 hedge accounting requirements so that if certain criteria are met, an entity is permitted to designate a variable nominal volume or quantity of forecast sales or purchases of renewable electricity as the hedged item in a cash flow hedge. This would enable some virtual PPAs or physical PPAs that fail own use to qualify for hedge accounting.

    c) To introduce disclosure requirements, which include either the fair value or information on volumes sold or purchased, volumes expected to be purchased or sold and the average spot price of renewable electricity during the period.

3. In the discussion, the following points were made:

    a) Overall, members welcomed the project, as among larger entities PPAs were increasingly prevalent and significant. Many entities had committed to reach net zero by 2030 or shortly afterwards. However, members cautioned that a rules-based approach could present challenges for future practice.

    b) Members agreed with the IASB proposal to restrict the scope of any amendments to those sources of renewable energy of which the supply varied with time or volume.

    c) As the market was developing, the IASB proposals on the 'own use' exception did not necessarily address all PPAs. For example, in some PPAs, an entity could purchase a fixed amount of electricity in all time slots, but use power only during the week but not at the weekend. It was unclear whether such a scenario would fall within the scope of the 'own use' exception under the proposed amendments.

d) Some members questioned whether an entity that sold 60% of the electricity it purchased should qualify for the 'own use' exception, as tentatively proposed by the IASB.

e) Permitting hedge accounting for variable volumes constituted a significant departure from current practice. Members observed that the IASB had proposed amending IFRS 9 only, not IAS 39 *Financial Instruments: Recognition and Measurement*. A few entities still used the hedge accounting rules under the latter standard, though most affected by this issue had either switched to IFRS 9 or could likely do so relatively easily.

f) Members considered the proposed disclosure requirements too detailed, potentially requiring disclosure of commercially sensitive information.

g) Members commented that long-term energy contracts could not be fair valued reliably because it was extremely difficult to predict future energy prices beyond a three- to five-year horizon. Providing very detailed information on price, volumes sold or purchased and expected to be sold or purchased would not enable users to estimate that fair value reliably.

h) Some members questioned what was the objective of the proposed disclosures – for example should they be extended to all off balance sheet commitments?

Influencing: Pollutant Pricing Mechanisms (PPM)

4. The UKEB Secretariat introduced the topic, observing that the IASB had asked National Standard Setters for their views on whether this topic should be prioritised. Members' views were sought on the prevalence of PPMs in the UK and any observations on accounting issues.

5. Members noted the following points in the discussion:

a) It was considered that both statutory and voluntary PPMs were increasing in both prevalence and significance. This appeared to be due to many entities increasingly seeking to use them to achieve their net zero commitments.

b) Members noted diversity in practice in when an asset is recognised for a PPM, and in the classification of emissions trading certificates, voluntary carbon credits and emissions liabilities. It was also noted that entities measured PPMs under different accounting standards, resulting in PPMs being measured either at fair value or cost.

c) As voluntary schemes were considered more flexible, it was also considered that accounting for voluntary schemes was more challenging than accounting for statutory schemes. In some cases, voluntary schemes are semi-regulated resulting in questions about the value of carbon credits.

d) Members had observed entities taking voluntary carbon credits into account when calculating the fair value of assets (e.g. forests) to which they could be attributed. It was not clear on what basis those carbon credits should be valued.

e) It was noted that in some voluntary carbon schemes the actual carbon credit occurs in the future. Members observed that it was unclear under IFRS how to account for 'pending' credits.

f) A related issue was the diversity in practice in accounting for Renewable Energy Credits (RECs), which function in similar ways to PPMs. Members noted that guidance from the IASB would be welcome in this area, especially where RECs are bundled with PPAs.

g) Members considered that PPMs should be prioritised by the IASB from both the asset and the liability perspectives. In relation to the latter, IAS 20 *Government Grants* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and in particular its interaction with the *Conceptual Framework* should be considered.

h) Members recognised that the IASB was resource constrained and suggested the IASB may be able to create capacity by incorporating a PPM project within the project on *Intangibles*, absorbing capacity from the discontinued project on *Business Combinations under Common Control*, or deprioritising the project on *Dynamic Risk Management*.

Influencing: Business Combinations: Disclosures, Goodwill and Impairment

6. The UKEB Secretariat noted that the Exposure Draft (ED) *Business Combinations – Disclosures, Goodwill and Impairment* [1], had been published earlier that day (14 March 2024), but since there had not been an opportunity for anyone to review the ED, the discussion would be based on the tentative decisions on:

   a) the 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*.

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

[1] 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.

Proposed amendments to IFRS 3 *Business Combinations*

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

8. AFIAG members expressed concern that such quantitative information would be:

   a) highly judgemental and subjective;

   b) unavailable due to timing, if acquisition completes close to reporting date;

   c) difficult to audit – so will not give the assurance users are looking for;

   d) inconsistent with other information – provisional information only disclosed in the year of acquisition and not adjusted[2] is of limited use;

   e) located in the wrong place – many AFIAG members suggested such stewardship information would be better in the front half of the annual report[3];

   f) an unsuccessful attempt to address the shielding effect, since the IASB determined it could not improve the effectiveness of the impairment test.

Strategically important business combinations

9. Overall, AFIAG members supported investors receiving additional information for the most important business combinations. However, the ensuing discussion highlighted some concerns about:

   a) the definition of the subset of 'strategic' business combinations;

   b) the disclosure requirements.

10. AFIAG members raised the following concerns about the proposed thresholds:

    a) too many acquisitions would be classified as strategic – except for highly acquisitive businesses, most entities that acquire a business in any given year would be subject to the disclosure and this seems excessive. Comments and suggestions included:

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[2] If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect the new information obtained about facts and circumstances that existed as of the acquisition date, and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking, but shall not exceed one year from the acquisition date.

[3] The Secretariat advised AFIAG members that location of information had been debated earlier in the project and the that conceptual framework does not prohibit such information from being disclosed in the financial statements.

   i. meeting only one of the thresholds seems a low bar;

   ii. 10% threshold is too low;

   iii. the proposed requirements could be amended to apply only to companies applying IFRS 8[4];

b) understanding the qualitative thresholds – without a common understanding of how each is defined, the thresholds are difficult to apply. One member queried if 'major' relates to both the qualitative thresholds, or just to 'new line of business'. The guidance in the ED will need to be clear;

c) a three-tier approach i.e. not material, material and strategic, adds another level of judgement and complexity.

11. The following concerns were noted in relation to the proposed requirements:

   a) length of time – users may expect all strategic business combinations to be monitored for at least two years;

   b) location and necessity of information – whilst information might lessen the gap between the front and back half of the annual report, in the UK such disclosures could be mandated (by the FRC) in the Strategic report;

   c) management bias – requiring the information in the accounts would lead to more achievable targets being disclosed, assisting audit assurance and reflecting management in a good light on subsequent performance. Conversely, disclosures outside of the financial statements might lead to better quality of information for users.

Exemption

12. The Chair noted the flexibility that the proposed exemption provides, especially given that that the exemption does not just apply '*in extremely rare cases*'[5].

Proposed amendments to IAS 36 *Impairment of Assets*

Simplifications to 'value in use' calculation

13. There was general support for the proposals to allow post-tax cash flows and post-cash discount rates.

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[4] IFRS 8 *Operating Segments* requires an entity whose debt or equity securities are publicly traded to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages and the different economic environments in which it operates.

[5] The proposed exemption is more readily available than the exemption under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which is constrained to be used '*in extremely rare cases*'.

14. There were mixed views regarding the proposal to remove the restriction that currently prohibits including 'uncommitted' future restructurings in cashflow projections. The ensuing discussion highlighted the following concerns:

    a) introduction of management bias for 'uncommitted' future restructurings;

    b) difficulty in auditing – sensitivity analysis disclosures however may assist;

    c) the distinction between value in use (VIU) and fair value less cost of disposal (FVLCD)[6] is becoming less clear;

15. Finally, the Chair noted potential conflict between the proposal to use 'pre-tax' quantitative thresholds for defining strategic business combinations versus the disclosure of quantitative synergies that might be tax-savings, such that a tax-saving acquisition may not be captured as a strategic business combination.

Next steps

16. It was noted that the UKEB Draft Comment Letter is expected to be published for consultation in June 2024.

Influencing: Regulatory Assets and Regulatory Liabilities

17. The Chair opened the session and handed over to the Secretariat who presented a brief overview of:

    a) The IASB's proposals in the ED using a simple example of how a regulatory asset (and regulatory income) will arise and reverse.

    b) The IASB's direct (no direct) relationship concept and the tentative decisions based on this concept.

    c) The UKEB's concerns relating to the impact of the direct (no direct) concept on the entities in the no direct model, including almost all UK entities who operate under incentive-based regulatory agreements.

    d) The Secretariat's work to explore a possible top-down approach to recognise the differences in timing adjusted in the regulatory capital base (RCB).

18. The Secretariat explained that from the work undertaken so far, UK water entities have approximately 60% of the timing differences (being the amounts they are entitled to recover in future regulated rates) reflected in the RCB. The Secretariat

[6] Under IAS 36, an impairment loss needs to be recognised if the carrying value of the asset is less than the recoverable amount. The recoverable amount is the higher of (a) fair value less cost of disposal (FVLCD) and value in use (VIU).

acknowledged that further work needs to be done to gather information for other sectors.

19. The Secretariat explained that they are developing a possible top-down approach to address the lack of recognition for timing differences reflected in the RCB for entities in the no direct model.

20. The top-down approach will be discussed at the RRA TAG meeting and Board meeting in late-March.

21. The Chair thanked the Secretariat and the members for their contributions.

Horizon Scanning

22. The Chair opened the session and asked for member views on potential emerging issues.

23. One member noted discussions in another jurisdiction about the diversity in practice when accounting for certain assets in the utilities sector. This considered how a utility company should account for the receipt of a new asset in cases where a developer has created the asset, and control of the asset is subsequently transferred to the utility company. Some utility companies recognised the accounting credit associated with this transaction at the point of transfer, while others recognised it over time. The meeting was asked whether this was a significant issue in the UK. In the ensuing discussion the following points were made:

    a) One member observed that there is diversity in accounting practice, but in their experience this is driven by differences in underlying economic fact patterns and therefore is appropriate. They believe that between IFRS 15 *Revenue from Contracts with Customers* and IFRIC 12 *Service Concession Arrangements* there is sufficient existing guidance to reach appropriate accounting outcomes.

    b) Two other members agreed there is mixed practice in this area, but in their experience it was not always supported by underlying economic differences. They observed this was a known issue, which had been highlighted to the IASB in the recent post-implementation review of IFRS 15.

24. AFIAG members were asked whether there were any new or emerging issues on the IFRS 18 *Primary Financial Statements* project (PFS) project since this topic was last discussed with AFIAG in November 2023. AFIAG members were not aware of any such issues.

25. The Secretariat advised AFIAG members that, as part of the work on the PFS project, a preparer survey and a user survey will be circulated in Q2 2024. The purpose of the survey is to help identify any significant concerns and to provide

input to the endorsement process. The Secretariat asked members for their assistance in distributing the surveys to appropriate audiences.

A.O.B.

26. The Secretariat asked members for feedback on an IFRS Interpretations Committee pipeline question relating to how entities present, in their statements of cash flows, cash payments and receipts related to margin calls on contracts that are, centrally cleared and 'collateralised-to-market'?

27. The majority of members did not think these transactions were common in the UK, nor were they aware of widespread diversity in accounting practice. They also noted that any diversity was likely related to the underlying contractual and economic circumstances.

28. One member noted some diversity could exist in practice but stated that it wasn't "widespread". They also highlighted that the submission to IFRIC did not capture all the accounting treatments that could be applied.

The next meeting will take place on 1 July 2024.

END OF MEETING