UK Endorsement Board

Minutes of UKEB's Investor Advisory Group (IAG) meeting held on 13 June 2023 from 13:00 to 17:00

Ref.	Item
	Introduction and objectives of the meeting
1.	Connectivity ISSB and IASB
2.	IFRS 15 *Revenue from Contracts with Customers*
3.	IFRS 9 *Financial Instruments*
4.	IAS 12 International Tax Reform - Pillar Two Model
5.	Horizon scanning
6.	Freedom of Information Act
7.	A.O.B.

Present	
Name	**Designation**
Pauline Wallace	Chair, UKEB
Seema Jamil-O'Neill	Technical Director, UKEB
Paul Lee	Chair, IAG
Liz Murrell	UKEB member
Christopher Bamberry	IAG member
Louise Dudley	IAG member
Rupert Krefting	IAG member
Alastair Drake	IAG member
Stanislav Varkalov	IAG member
Tony Silverman	IAG member

Relevant UKEB secretariat team members were also present and IASB staff working on the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* for that agenda item.

Welcome and Introduction

1. The Chair welcomed the Investor Advisory Group (IAG) members to the meeting and noted apologies from Nicole Carter.

Connectivity ISSB and IASB

Annual Reports – connectivity analysis

2. Members were asked to consider examples of potential inconsistencies that may lead to connectivity gaps identified from an illustrative sample of 9 FTSE 2022 Annual Reports; the extent to which the introduction of IFRS S1 and S2 may address any current gaps; and who may be best placed to address any remaining potential disconnects in Annual Reports.

3. The UKEB Secretariat clarified that the examples were intended to illustrate some of the current connectivity challenges from a user's perspective based on information available to the market. The sample was not intended to be representative of the current landscape or to pass judgement over reporting by individual companies.

4. Most members considered the illustrative examples to be a reasonable basis for enquiry into disclosures of material climate-related risks and the potential questions from an informed investor on the related disclosures in the financial statements. It was recognised that the information may not always connect, for a range of valid reasons. However, it should connect when considered material to users.

5. A member observed that some FTSE companies, with material climate-related risk still had very limited and generic climate disclosures in their financial statements.

6. Another member noted the issue of overwhelming proliferation of acronyms, from the various frameworks currently in place. Investors struggled to translate the range of disclosures into potential financial statement impacts.

7. It was considered that sustainability data was generally less reliable as it lacked quality assurance and independent verification. Members noted that some entities appeared to have separate ESG and financial reporting teams who may operate independent reporting processes. This operational approach could raise potential risks of disconnected reporting.

8. Another member observed that some companies appeared more concerned about demonstrating their ESG credentials or attempting to second guess the impact of

ESG investors on pricing than providing decision-useful information on climate-related matters.

9. It was noted that some entities may have assets in their accounts at a value which might not be justifiable in every climate scenario. However, it was also recognised that new technology was needed to replace existing assets and that it was not yet clear how or when these transitions may occur.

10. A member observed that investors still expected known risks to be considered and at least qualitative disclosures to be made regarding the medium and long term when material to investors. Without the potential impact from these risks being disclosures it was questioned whether the financial statements could provide an overall true and fair view.

11. Another member noted that some oil and gas companies had developed carbon pricing models in parallel to their profit and loss statements, factoring this into their capital expenditure and returns forecast. However, while this approach was considered best practice it appeared to be adopted on a voluntary basis and not reflected in financial statements.

12. It was considered helpful that the ISSB Standards had specific connected information requirements where sustainability information would be prepared for the same reporting entity and published at the same time as the financial statements.

13. It was noted that some entities were concerned regarding the expansion of reporting entity boundary in IFRS S2. There was concern that including disclosures from the entities' value chains may result in over-disclosure in the front half of Annual Reports.

14. Members also considered the IASB climate related risks in financial statements project. A member enquired as to the IASB's role with reporting scope 1, 2 and 3 emissions data. It was considered that this was not necessarily within the remit of the IASB. It was noted that IFRS S2 contained requirements regarding the reporting of scope 1, 2 and 3 emissions with references to third party measurement approaches.

ISSB Request for Information – UKEB Draft Comment Letter

15. 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.

16. 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) The Secretariat explained that there was no question on connectivity with the IASB Accounting Standards. Members agreed that this was an important area that should be developed. Understanding the scope of the ISSB standards, possibly in the context of a Conceptual Framework was also discussed.

c) One member suggested that SASB Standards could be useful if the US bias was removed. However, another member commented that a lot of SASB embedded regulation which was purely US and asked for reporting against US-based standards, which felt pointless.

17. On the criteria for assessing which matters to prioritise and add to the ISSB's work plan the Secretariat explained that other advisory groups had suggested there needed to be explicit consideration of the overlap with the IASB projects and the capacity of stakeholders to engage with the outcome of a project.

a) A member said the investors needed time to build an understanding of the information that would be produced, but at the moment it was often generic and not that useful.

18. 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) IAG members discussed the intention of the Connectivity Project. A member noted the Integrated Reporting did not always provide useful information. Another member wondered whether the information would be audited and whether it would be any different from what was already appearing in the front half of the annual report.

19. The IAG members were also interested to explore the position the United States was likely to take with regard to ISSB Standards.

20. The Secretariat explained that the UKEB's draft response would be published on 23 June 2023 with a 30-day comment period, and they would appreciate any feedback members had.

IFRS 15 *Revenue from Contracts with Customers*

Post-Implementation Review

21. IASB staff for the Post Implementation Review (PIR) of IFRS 15 *Revenue from Contracts with Customers* presented to IAG members on the objective of the PIR, the timeline, and how the IASB would respond to any comments by prioritising

issues. IASB staff shared the feedback received during Phase 1 of the PIR, which commenced in September 2022, and the topics the IASB will focus on in Phase 2 of the PIR, as part of the upcoming Request for Information (RfI)[1].

22. The UKEB Secretariat then led the discussion covering several of the topics.

Timing and Amount of Revenue Recognition

23. Members agreed that financial statements prepared using IFRS 15 provided useful information for their analysis of the timing and amount of companies' revenue, with one member noting they took more comfort now that companies were using IFRS 15 than under previous financial reporting standards, particularly in relation to long-term contracts, in industries such as construction and software providers. One preparer commented that the standard creates a more consistent, level playing field, at least within sectors, which is usually the investor's focus, as opposed to cross-sector consistency.

24. Diversity between companies within the same sector was observed, with a particular reference made to the recording of contract assets by some telecoms companies, for assets such as handset receivables, where the value is recovered over a 12- or 24-month contract with the customer. IFRS 15 had required a contract asset to be recorded on the balance sheet and the service fee received allocated to the contract asset over time.

25. One member noted a significant impact on a company with a large number of long-term contracts and estimated that 70% of their revenue recognition had changed, but that the disclosures required by the standard made the business more understandable where contracts were complex, so there has been a qualitative side benefit of IFRS 15.

26. Another member noted that IFRS 15 had shone a light on companies with previously 'more casual' accounting practices, which needed to be addressed under IFRS 15.

Disclosures

27. Members agreed that enhanced disclosures provided under IFRS 15 were more informative than under previous revenue recognition standards.

28. Members found disaggregation of revenue and contract balance disclosures particularly useful. The disclosure of significant judgements was not an area that was focused on by IAG members.

29. One member said they used the movement of contract balances to determine the business's direction of travel and the contract balances help to reconcile revenue

[1] The IASB published Request for Information Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* on 29 June 2023

with cash flows, though it was commented that a breakdown of contract balances would be useful in determining the effect on operational capital vs. working capital. The chair suggested whether the disaggregation of contract balances should be a requirement of the standard, as investors noted it was something that management provided when requested by the investor. It was also suggested by a member that deferred income might also be disaggregated, since the current disclosures were not useful for long, say 10- or 20- year, contracts.

30. Whilst geographical disaggregation of revenue was usual, one member commented that disaggregation of revenue by currency would be a useful analysis, to compare alignment of revenue by currency with debt by currency; moreover, currency is a fundamental economic characteristic, which the standard suggests should be the driver for revenue disaggregation, when aligning to IFRS 8 segmental reporting.

Comparability

31. Members agreed that IFRS 15 had improved comparability.

32. One member commented that the technology and construction investors would have seen improved comparability since IFRS 15; analyst had more comfort that they were looking at like-for-like comparisons.

Transition

33. Members were positive about the transition to IFRS 15. Members were not challenged by comparability where some companies used the full retrospective method and others using the modified retrospective method.

34. One member noted that, in general, companies had provided significant education to the investors during the transition period, but that the disclosed information had been very clear. The time and money invested by users in their analysis of revenue through the transition process had been worthwhile as a one-off investment, due to the increased disclosures going forward.

Convergence with US GAAP (FASB Topic 606)

35. One member mentioned that retaining convergence with Topic 606 was important. There were no comments disagreeing with that view.

IFRS 9 *Financial Instruments* Impairment

Post-Implementation Review of IFRS 9 Impairment

36. The UKEB Secretariat noted that during consultation on this project it was observed that the definition of “credit loss” in IFRS 9 is the difference between cash flows due under the contract and cash flows which are expected to be received. This means that potentially losses arising for non-credit related reasons

are captured and disclosed as "expected credit losses" under this definition, and member views on this were invited.

37. Member discussion noted that the most useful disaggregation would be between recurring and non-recurring items, rather than type of loss. However, diversity in practice could arise, given preparers could have different interpretations of "recurring" and "non-recurring". Others noted that entities usually include disclosures on non-recurring events in management disclosures. It was also observed that the types of events leading to non-credit related losses were difficult to predict and unlikely to be included in forecasts of expected credit loss due to this. During discussion it was also noted that differentiating between the requirements for banks and non-banks expected credit losses would be helpful, as one member thought the impairment sections of the standard did not work well for financial services entities that were not banks.

Amendments to the Classification and Measurement of Financial Instruments Exposure Draft

Derecognition of financial liabilities

38. The UKEB Secretariat invited views on the proposed amendment in the IASB's exposure draft, which clarifies that settlement date accounting should be used for the recognition and derecognition of financial assets and financial liabilities but provides an option for earlier derecognition for liabilities settled with cash via an electronic payment system when specific criteria are met.

39. The following points were highlighted during the discussion:

    a) One member considered the proposed accounting policy choice could lead to a potential timing difference between the derecognition of the financial liability (e.g. trade payable) on the debtor side and the derecognition of the financial asset (e.g. trade receivable) on the creditor side.

    b) Another member also noted concerns on the asymmetry noted above and the potential implications for the presentation of cash in the Statement of Cash Flows.

Classification of financial assets: lending with environmental, social and governance (ESG)-linked features

40. The UKEB Secretariat explained IASB proposals that, to be considered basic lending and qualify for amortised cost accounting, a loan with a contingent event (e.g. a loan with an ESG-linked target) the occurrence (or non-occurrence) of the contingent event must be "specific to the debtor". If interpreted narrowly, this would likely mean ESG-targets set for the borrowing entity only and would therefore exclude amortised cost accounting for loans with ESG-linked targets set at consolidated level or for other group companies.

Members agreed this proposal appears unnecessarily restrictive, though some noted that currently, the effect of the ESG-linked features on the cash flow changes of the financial instruments seems to be immaterial.

Disclosure requirements: lending with ESG-linked features

41. The UKEB Secretariat explained the proposals, noted the disclosure requirements were broad, and invited views as to what specific information on basic lending with ESG-linked features would be most useful.

42. The following points were highlighted during the discussion:

    a) One member raised concerns on grouping the disclosures related to ESG-linked features with those related to other contingent events, including standard lending terms.

    b) One member considered the information of ESG-linked features would likely be disclosed in management disclosures.

Transition

43. The UKEB Secretariat invited views on the suggestion in the UKEB draft comment letter that early adoption should be permitted for the changes related to ESG-linked instruments.

44. Members agreed the proposed amendments related to ESG-linked features were more urgently needed than the rest of the proposals.

IAS 12 Amendments

International Tax Reform – Pillar Two Model Rules: Final Amendments to Exposure Draft

45. IAG members supported the mandatory temporary exception, as accounting for deferred tax in relation to Pillar Two top-up taxes would not result in the loss of any decision-useful information. They further considered it avoided an onerous, impracticable requirement for preparers.

46. IAG members welcomed the disclosure requirements.

47. They regarded the requirement to disclose current tax in relation to Pillar Two top-up taxes separately as decision-useful, as they were concerned with the direct impact Pillar Two would have on groups.

48. IAG members also considered the principle-based requirements for the period once the tax is enacted or substantively enacted but before the tax was effective

to be valuable, as groups would have to indicate the expected impact of Pillar Two and the extent to which they were prepared for Pillar Two implementation.

49. IAG members considered that they would incur minimal implementation costs, principally related to familiarisation.

Horizon Scanning

50. The Chair invited suggestions of items which might be on the horizon for investors with significant impacts.

51. It was suggested that cash flow statements may need improvement as currently they were of limited use to investors. In part this was due to the lack of a net debt reconciliation.

52. It was suggested that supplier finance arrangements may also need consideration. The forthcoming new disclosure standards may mean that there is less insight into more ordinary receivables factoring than for reverse factoring.

53. In relation to IFRS 17, concerns were raised regarding the inclusion of credit and insurance risk in insurance contract liability. Investors were asking entities to pool net payables and net receivables from insurance liability and reinsurance assets. It appeared that entities may choose to disclose these voluntarily, but it was suggested that this could be a requirement of the standard.

Freedom of Information Act

54. The UKEB Technical Director provided overview of the Freedom of Information Act (FOIA) for members as the UKEB was subject to the Act as a public body.

AOB

55. At the request of a member the UKEB Staff had engaged the London Stock Exchange (LSE) to enquire if they wished to be an observer on the group. The LSE are considering the opportunity and will advise the Staff in due course.

56. Members were advised that the final amendments relating to Supplier Finance Arrangements had now been published and that the UKEB would proceed with endorsement work.

The Chair closed the meeting at 16:35.

57. Next meeting was scheduled for 23 October. As several members advised they would now not be able to attend the meeting will be rearranged in due course.