

# Summary of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG) meeting held on 11 March 2025

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2	Endorsement: Contracts referencing nature-dependent electricity
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Present	
Name	Designation
Pauline Wallace	Chair, UK Endorsement Board
Tony Clifford	UK Endorsement Board member and AFIAG Chair
Seema Jamil-O'Neill	Technical Director, UK Endorsement Board
Andrea Allocco	AFIAG member
Andrew Spooner	AFIAG member
Claire Needham	AFIAG member
Danielle Stewart OBE	AFIAG member
David Littleford	AFIAG member
James Barbour	AFIAG member
Moses Serfaty	AFIAG member

Richard Moore	AFIAG member
Aaron Saw	Observer with speaking rights.

**Apologies:** Chris Smith, John Boulton

Relevant UKEB Secretariat team members were also present.

## Welcome

1. The Chair welcomed members to the meeting and introduced the topics for discussion. Members paid tribute to the late Sandra Thompson, the previous Chair of this group, acknowledging her contribution to this advisory group, the UK Endorsement Board and the accounting community.

## Endorsement: *Contracts Referencing Nature-dependent Electricity*

2. The UKEB Secretariat provided an overview of the Amendments which were published by the IASB in December 2024. Members were asked a number of questions pertaining to the UKEB's recently published Draft Endorsement Criteria Assessment.
3. Overall members were supportive of the Amendments.
4. Regarding whether the Amendments represented a change in accounting practice, members made the following points:
  - a) For many entities this is not yet a material issue and members were not aware that these amendments would represent a change in existing accounting practice.
  - b) In contrast, the hedge accounting Amendments might constitute a change in accounting practice, as hedge accounting would potentially be available for certain contracts where it had not previously been the case. However, this did not necessarily mean a change in accounting practice for entities currently accounting for these contracts as derivatives, as hedge accounting is an election. Members observed that these Amendments might be more attractive for future contracts where the contract would have a nil value at inception of the hedge. It was noted that applying hedge accounting using existing contracts with a positive or negative fair value may be difficult.
5. Members were generally of the view that the Amendments were capable of being applied in practice:
  - a) AFIAG members did not have significant concerns about entities failing the net purchaser assessment due to one off reductions in demand, and

having to fair value contracts for their remaining lives. One AFIAG member noted that the twelve-month period for the backward-looking net-purchaser assessment was sufficiently broad to take account of fluctuations in electricity demand. Another noted that while application problems might surface, they did not consider that these were insurmountable.

- b) AFIAG members were of the view that hedge accounting would be possible but would not be straightforward to apply given the technical complexity.
6. Members were of the view that the own-use Amendments removed a barrier to the use of contracts referencing nature-dependent electricity, by removing accounting considerations which might detract from entities making a purely economic decision when entering into a contract. One member observed that the own-use Amendments might enable an entity to present a more coherent picture of their activities to the markets.
7. A member observed that the own-use Amendments were likely to reduce the cost of preparing and auditing fair valuations. Another member was of the view that the additional disclosure requirements would not be onerous as large entities are potentially already producing the information.
8. Finally, members considered that paragraph 2.3B of the Amendments, which state that the Amendments shall not be applied by analogy, was an important safeguard against entities applying these requirements inappropriately to other fact patterns and contracts.

## **Influencing: Post-implementation Review of IFRS 16 *Leases***

9. The UKEB Secretariat provided an overview of proposals relating to PIRs in the Exposure Draft *Due Process Handbook* (ED) and asked members their views on three topics:
- a) The IASB's existing prioritisation criteria and thresholds for taking action on a post-implementation review (PIR);
  - b) The IASB's proposals relating to PIRs in the ED; and
  - c) The main accounting issues or concerns relating to IFRS 16.
10. In the ensuing discussion members noted:
- a) The existing threshold for taking action on a PIR is very high and this may discourage stakeholders from raising issues.
  - b) The timing of the PIR is typically too late as practice has settled and there will not be an appetite for change.
  - c) The proposed amendments to PIRs in the ED appear to be introducing significant subjectivity. Members' specific concerns included:

- i. The amended objective “to assess whether the effects of applying the new Standard [...] are as intended when developed” may be problematic as ‘effects’ is a vague concept.
  - ii. Having no specific timeframe for conducting PIRs is unsatisfactory. The concept of “once sufficient information is available” is too subjective and vague, there should be a backstop timeframe.
- d) Most members agreed that there are no major technical issues with IFRS 16 in practice and they would not generally be supportive of amending the requirements. The following comments were made:
- i. Most challenges are due to judgements and estimates, but that it is the nature of principle-based accounting requirements.
  - ii. The most significant challenge is sale-and-leaseback transactions and the interaction with IFRS 15 *Revenue from Contracts with Customers*.
  - iii. One member commented that the requirements to revalue acquired leases in a business combination under IFRS 3 *Business Combinations* is very costly, and that simplification of the requirements may be helpful.

## Influencing: IASB Fourth Agenda Consultation

11. The UKEB Secretariat provided an overview of the IASB’s agenda consultation process and noted that the IASB expected to start work on a Fourth Agenda Consultation, covering their workplan from 2027 to 2031 in early 2025.
12. Members were asked for their feedback on the Third Agenda Consultation and views on the approach to next consultation. Members made the following points:
  - a) A member noted that the IASB had already spent a significant amount of Board time overhauling IFRS for SMEs and queried whether this would require as much focus in the next workplan.
  - b) Several members recommended that the IASB increase its focus on the need to deliver transparency to capital markets, as per its mission statement. A member questioned whether the IASB’s proposed project on hyperinflation aligned with the IASB’s mission statement.
  - c) Members were aware that the Intangibles and Cash Flows projects were in the early stage of development and would require a significant amount of IASB capacity during the next workplan. They are keen to understand the capacity that remained for additional projects.

- d) A member noted that the IASB was unlikely to consider stopping any active projects and suggested this should be reconsidered in the context of a rapidly changing business environment and its impact on IFRS.
  - e) Some members considered that the Third Agenda Consultation approach of providing a list of 22 topics should not be repeated. They supported a more focused approach and considered that the seven prioritised topics identified at the conclusion were appropriate.
  - f) Members discussed whether the IASB should adopt a more strategic approach by adding standard setting projects that would develop standards that address major emerging economic trends in the medium to long term. Some members considered that this may be helpful but not if it was at the expense of failing to address near term issues.
  - g) A member noted the risk of additional complexity from multiple narrow scope amendments and suggested the IASB should look more holistically at the root causes of emerging issues with existing accounting standards.
13. In relation to connectivity, it was noted that the IASB may differentiate these projects in the Request for Information between 'core' and potential 'joint' projects with the ISSB. Members noted that connectivity was of significant interest to them.
14. Members were also asked to comment on what they considered to be the key emerging economic trends that may impact IFRS in the medium to long term. Members made the following points:
- a) Overall sustainability, geopolitical risk, volatility in financial markets and technology advances were considered key emerging risks likely to impact IFRS.
15. A member commended the ISSB for beginning early research into Nature-related Financial Disclosures and recommended that the IASB should consider the impact of technology changes in financial reporting in the near term.
16. Some suggestions for specific topics to include in the IASB fourth agenda consultation were raised including:
- a) If all active projects are to remain on the agenda, focus the 2027-2031 period on ensuring those projects are completed. Remaining resource capacity will likely be needed to respond to new issues emerging during the period.
  - b) Possibly adding a review of older standards, such as IAS 2 *Inventories*. This would allow the standards to reflect the evolving nature of business and better reflect connections with other standards.

- c) One member noted that accounting for non-fungible tokens (NFTs) was an issue that arose regularly in their business, and the agenda consultation may provide an opportunity to consider the accounting for such instruments. Other members observed that there was not yet a clear definition for NFTs.
- d) Depending on the scope of the IASB's forthcoming Intangibles project, items that fall outside of the scope could be raised in the Agenda Consultation.

## Preparation for the Accounting Standards Advisory Forum (ASAF) meeting

### Financial Instruments with Characteristics of Equity

- 17. The Secretariat asked AFIAG members for their views on three key matters:
  - a) The IASB's preferred 'Bridge approach' to the presentation proposals in the ED, as set out in the February 2025 IASB paper 5A.
  - b) The suggested changes to the disclosure proposals in the ED, as set out in the February 2025 IASB paper 5B.
  - c) The timing of finalising the presentation and disclosure proposals.
- 18. One member was of the view that the presentation proposals would provide useful information in terms of allocating profit between different equity instrument holders. However, the member had a concern that, as drafted, there was a disconnect between this proposed allocation and the proposed disclosures about the terms and conditions of equity instruments. They also noted that it would be important to clearly define participating and non-participating instruments.
- 19. Members questioned how useful the presentation proposals would be to users, as the focus on current year profits ignored other rights of equity holders, such as rights to future profits. However, it was acknowledged that this information might be included in the proposed disclosures.
- 20. On the disclosure proposals, one member struggled to understand the value of information that would be provided to users. They were of the view that information about material terms and conditions of equity instruments issued by a parent was useful to users but could not see the value of the aggregated disclosures proposed by the IASB. There was also a lack of clarity on how the updated disclosure proposals differed from the proposals in the ED.

## Horizon Scanning

21. The Chair opened the session and asked for member views on potential emerging issues.
22. The matters raised related to the IASB Fourth Agenda Consultation, and have been included in the summary of that discussion in paragraphs 11-15 above.

## A.O.B.

23. An agenda item for the forthcoming June meeting was highlighted to members.

The next meeting will take place on 10 June 2025.

**END OF MEETING**