UKEB
UK Endorsement Board

Meeting Summary of UKEB's Accounting Firms and Institutes Advisory Group meeting held on 30 March from 9am to 1pm

Meeting Agenda

Item No.	Item
	Welcome
1	Endorsement: Supplier Finance Arrangements
2	Endorsement: IAS 1
3	Endorsement: IAS 12
4	Influencing: Post-implementation Review of IFRS 9 – Impairment
5	Influencing: Connectivity: ISSB and IASB standards - Assets
6	Horizon scanning
7	Governance matters
8	Any other business

Present

Name	Designation
Pauline Wallace	Chair, UK Endorsement Board
Sandra Thompson	Chair, AFIAG
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
James Barbour	AFIAG member
John Boulton	AFIAG member
Moses Serfaty	AFIAG member
Richard Moore	AFIAG member
Sharon Machado	AFIAG member

Relevant UKEB Secretariat team members were also present.

Welcome and Introduction

1. The Chair welcomed members to the meeting, and introduced the new Secretariat support lead for the group.

Endorsement: Supplier Finance Arrangements

2. The UKEB Secretariat provided background information on the project:

a) The International Accounting Standards Board (IASB) plans to issue amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* requiring entities to disclose additional information on an entity's use of supplier finance arrangements.

b) The final amendments are expected in May 2023, with an effective date of annual reporting periods beginning on or after 1 January 2024. This would result in an unusually short period for the UKEB's endorsement work and for entities to prepare for the disclosure requirements.

c) AFIAG members' early feedback ahead of the publication of the final amendments was sought so that it could be considered in the development of the UKEB Draft Endorsement Criteria Assessment (Draft ECA).

3. AFIAG members received a summary of the expected amendments, based on the IASB proposals in the Exposure Draft Supplier Finance Arrangements and subsequent IASB re-deliberations.

4. AFIAG members noted the following:

a) Overall, the expected amendments will increase transparency on an entity's use of supplier finance arrangements, which is a positive step forward.

b) Some AFIAG members noted concerns on the scope of the expected amendments. It is not clear where to draw the line on arrangements intended to be in and out of scope. However, it was noted that although clarification about scope would be welcome, AFIAG members did not want to delay the amendments as they are a priority for users of accounts.

c) AFIAG members expected application challenges to arise, for both preparers and auditors, in relation to the requirement to disclose the carrying amounts of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers. The transition reliefs for this disclosure are welcome as they will allow time for preparers to obtain the information in those cases where they do not already have it.

d) One AFIAG member expressed support for the disclosure of the range of payment due dates for both financial liabilities that are part of supplier finance arrangements and for trade payables that are not.

e) AFIAG members supported the transition relief that will accompany the final amendments. However, AFIAG members questioned the need to provide specific relief for interim disclosures as it is not clear what requirement(s) in IAS 34 relief is needed from, and expressed concerns about setting precedent for other projects.

f) Overall, AFIAG members did not raise concerns in relation to the costs/benefits likely to arise from the amendments but suggested contacting users of accounts to get their views.

g) On a related note, questions were raised on the potential interaction of the expected amendments and the UK Government's Late Payment Review. Some members felt the supplier finance disclosures could support the Government initiative.

5. The Secretariat noted the next steps on the project, with a Draft ECA expected to be published for public consultation shortly after the publication of the final amendments and a link to the document will be shared with AFIAG members.

Endorsement: IAS 1

6. The UKEB Secretariat provided an update on the UKEB's endorsement project on IAS 1 2020 and 2022 Narrow-scope Amendments (IAS 1 Amendments) and informed the AFIAG that the Draft Endorsement Criteria Assessment (DECA) of IAS 1 Amendments has been published.

7. The UKEB Secretariat encouraged the AFIAG members to submit formal responses on the DECA of IAS 1 Amendments. The UKEB chair also encouraged the AFIAG members to share the DECA with their networks for their formal responses.

Joint assessment and adoption approach

8. The UKEB Secretariat explained that the DECA considers the IAS 1 2020 and 2022 Narrow-scope Amendments and proposes they are adopted on a joint basis as this is the most appropriate approach. The AFIAG members agreed on the use of joint approach and noted this was consistent with the approach being taking by EFRAG.

Technical Criteria Assessment and True and Fair View Assessment

9. The UKEB Secretariat invited views on the technical criteria assessment and the true and fair view assessment in the DECA. The AFIAG indicated agreement with the assessments and had no further comment.

UK Long Term Public Good Assessment – cost and benefit analysis

10. The UKEB Secretariat explained the cost and benefit analysis is an important aspect of the UK long term public good assessment and invited views on the cost and benefit analysis in the DECA.

11. The AFIAG members agreed with the analysis of costs for users and the benefits for both users and preparers in the DECA. In the ensuing discussion, the following points related to the analysis of costs for preparers were made:

a) Improvement of financial reporting –The Amendments improve the financial reporting by providing more relevant and useful covenant information to the users of financial statements, enabling them to understand the risk that non-current liabilities with covenants can become repayable within twelve months and help them assess the potential impact.

b) Readily available information – The covenant information required for the disclosure requirements should be readily available for most entities. Higher costs are expected during the initial application of the Amendments and in limited circumstances, but there was no indication that these were expected to be material.

c) Existing auditing requirements in the UK1 – Auditors in the UK are already required to consider covenant compliance as part of the going concern assessment so AFIAG members did not expect material additional audit costs.

d) Judgmental area – The Amendments clarify the classification of liabilities however some judgments are expected to remain in the area, for example, how to determine whether a covenant is breached, and in certain circumstances, for example, when the entity is expecting to renegotiate the covenants.

e) Concerns on the meaning of 'settlement' – The Amendments could result in financial instruments with convertible options, such as foreign currency convertible debts and warrants, being classified as current liabilities in the issuer's book. Its interaction with the disclosure requirements in IFRS 7 Financial Instruments: Disclosures may not improve understandability in relation to the nature of the financial instruments. However, members observed this is not a pervasive issue in the UK.

f) Overall cost and benefit – AFIAG members agreed that the benefits of applying the Amendments are expected to exceed the costs.

Significant change in accounting practice?

12. The UKEB Secretariat invited views on the UKEB's tentative conclusion that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review (PIR). The AFIAG indicated agreement with this conclusion and had no further comment.

Endorsement: IAS 12

13. The Secretariat thanked the AFIAG for its assistance in helping to facilitate the roundtable held in February, and summarised the points arising from that meeting as follows:

a) Separate disclosure of Pillar Two current tax in later periods, when the legislation is effective, will provide useful information on the impact of the new taxes.

b) On the whole, the group thought paragraph 88C was likely to lead to variable quality in reporting.

c) The requirement for “information” at paragraph 88C(a) could lead to significant variation in application and, potentially, boilerplate disclosure.

d) The IAS 12 rate proposed to be used as a proxy at paragraph 88C(b) is a poor one for the Pillar Two effective tax rate, and the correctives proposed in paragraph 88C(c) are not sufficient. However, this disclosure was likely only to be in place for a year for many entities.

e) Although a simpler requirement would be more useful for decision making, it was not worth delaying to perfect the disclosures. Groups with summer reporting dates need to be able to apply the Amendments.

14. The Secretariat outlined the current planned timetable for endorsement, with the Board deliberating on whether to adopt the Amendments at its 13 July meeting and voting in the week commencing 24 July. The Chair asked the AFIAG for views on that timetable.

15. The UKEB Chair noted that this timetable was designed in part to respond to firms’ comments on the UKEB regulatory strategy. As this timetable requires the UKEB to depart from its usual 90-day comment period, the Board wished to invite Advisory Groups’ views on whether the accelerated timetable was still required.

16. In the ensuing discussion, the following points were noted:

a) AFIAG members agreed that the Amendments must be endorsed before companies can use them in the UK.

b) One AFIAG member observed that the current timetable would be workable but tight, and an earlier adoption decision would be ideal. However, that member also acknowledged that this timetable represented the shortest period in which the UKEB Secretariat could complete its work, whilst still adhering to due process.

c) On balance AFIAG members agreed that this timetable, with an adoption assessment at the end of July, should be adequate for interim accounts for the period ended 30 June, which are not usually signed off before the last week of July.

d) The UKEB Secretariat noted that the Board will hold a tentative vote on 13 July, so its decision will be clear then, although not formally endorsed until the following week.

e) The UKEB Chair encouraged AFIAG members to respond to the DECA once issued.

f) One member noted that other jurisdictions are enacting the Pillar Two legislation faster than the UK, and the way the legislation works means they may be able to levy tax on the group's worldwide profits. However, that member agreed that the solution was to endorse the Amendments as quickly as possible.

g) A further AFIAG member expressed the view that good communication between preparers, auditors and regulators would be key. That member recalled an instance (IBOR 2) when regulators had issued a statement that they would not look unfavourably on early adoption, to avoid preparers having to apply requirements that would then be reversed at year end.

17. The Chair observed that the AFIAG was unanimous in agreeing that a shortened comment period was justified for these Amendments.

Influencing: Post-implementation review of IFRS 9 - Impairment

18. The UKEB Secretariat introduced the session topic, the IASB Post-Implementation Review (PIR) of the impairment requirements in IFRS 9 Financial Instruments. The discussion will inform the UKEB's response to the IASB's Request for Information, which is scheduled to be published in May 2023.

19. The UKEB Secretariat asked whether AFIAG members considered there to be fatal flaws in the IFRS 9 requirements on impairment. AFIAG members confirmed no fatal flaws had been identified.

20. The UKEB Secretariat asked AFIAG members for views on a range of topics, including intercompany lending, financial guarantees, the simplified approach for trade receivables, interaction with IFRS 15 Revenue from contracts with customers and IFRS 16 Leases, and the related disclosure requirements in IFRS 7 Financial Instruments: Disclosures, and transition.

21. In the ensuing discussion, the following points were made:

a) Some AFIAG members noted practical challenges on the application of the impairment requirements to intercompany lending balances but acknowledged that these challenges did not constitute a fatal flaw. One member thought an exception or further guidance would be useful, while others noted it would be difficult to arrive at an exception or a simplified model, similar to that used for receivables, due to lack of underlying loss data. It was noted some intercompany balances did need impairment. There was no clear solution to this issue and it was considered a matter of judgment.

b) One AFIAG member identified some issues on the application of the impairment requirements to financial guarantees however noted that these issues are not pervasive beyond the banking sector.

c) One AFIAG member noted that due to the short-term nature of receivables (most of which would have been paid by the time the financial statements are authorised for issue), the simplified approach for trade receivables worked well from a materiality perspective.

d) In applying the impairment requirements to factored receivables that do not qualify for derecognition, one AFIAG member noted that although it is challenging for the transferee, it was not perceived to be a significant issue requiring standard setting.

e) AFIAG members confirmed they had not identified significant issues on the interaction of the impairment requirements in IFRS 9 with those in IFRS 15 and IFRS 16.

f) AFIAG members had no significant concerns on the cost/benefit assessment in relation to the credit risk disclosure requirements.

g) AFIAG members did not raise any issues on the IFRS 9 transition requirements.

Connectivity: ISSB and IASB Standards - Assets

22. The UKEB Secretariat explained their scope and remit in relation to connectivity between the ISSB sustainability disclosure standards and the IASB accounting standards. The UKEB defines ‘connectivity’ as the overlap or connection between the [draft] IFRS disclosure and IFRS Accounting Standards.

23. The UKEB Secretariat provided an overview of the activities in this area:

a) Assessing existing research based on TCFD disclosures as a proxy for [draft] IFRS S2 *Climate-related Disclosures* (S2),

b) Analysis of a sample of year-end 2022 Annual Reports to identify any potential overlaps and connectivity issues

c) A series of papers on connectivity themes, including asset recognition and impairment which was the subject of the presentation.

24. The objective of this work was to support the UKEB to respond to the ISSB’s Request for Information (RFI) and to support the IASB in terms of any implications for their standards.

25. The UKEB Secretariat noted that the IASB’s position was that forward-looking information was adequately catered for in accounting standards. A PAG member

noted that lack of disclosure regarding climate in the financial statements did not necessarily mean that the subject had not been considered.

26. The UKEB Secretariat provided an overview of the high-level differences and similarities between two approaches and then presented a series of case studies to illustrate potential connectivity issues for discussion.

27. AFIAG members made the following observations in relation to sustainability disclosures and their connection to the financial statements:

a) Most members considered that any non-economic benefits should not be recognised in the financial statements as this would be inconsistent with fundamental accounting principles and the conceptual framework. They were not supportive of changes to the current conceptual framework. However, one member noted that revisiting the definition of an asset may be required in future given increasing importance of sustainability matters to stakeholders.

b) Members noted the risk that increasing disclosures in the financial statements relating to sustainability matters could clutter other important disclosures.

c) Members agreed that the priority was to achieve consistency between the front half and back half of annual reports and noted that in some cases information would legitimately not connect. Stakeholder feedback and the activities of the ISSB was providing the motivation for preparers to reconsider this connection.

d) The Chair asked members if the points in S2 regarding greater connectivity were sufficient. A member observed the purpose was to create a global baseline to build on; however, it was likely to be market led by the demands of users. This may encourage entities to go beyond the baseline. Another member noted that market leadership would help others to improve, but that a lack of data might hamper this in the short term.

e) A member noted the operational challenges for entities which may have different teams preparing the information and therefore changing the accounting standards may not be effective. Another member noted that many entities already struggled to prepare the annual report in a timely fashion and, with more and more reporting requirements, delaying annual reports was becoming a possibility.

f) A member suggested that a potential solution to the connectivity issue may be a summary indicating implications in the financial statements from sustainability disclosures. The member referred to Unilever's integrated report which achieved this.

g) The Chair noted the ISSB was launching an agenda consultation and had changed the name ‘connectivity reporting’ in favour of ‘integrated reporting.

h) A member highlighted the ISSB use of ‘short, medium and long’ terms might be able to be used to enhance the judgement around the useful life of assets and reinvestment. Another member suggested that users may find helpful a ‘positive statement’ regarding which items in the financial statements had been affected by sustainability risks.

i) Another member observed that entities generally viewed the impact in the medium and long terms as not being material. This would require a change of mindset were entities would be required to look further than the three to five years to determine going concern.

j) The UKEB Secretariat noted there had been a wide variety of accounting treatments proposed for carbon credits, across issues such as valuing carbon sinks, like woodlands and forests, and whether purchased credits should be accounted for as inventory, intangible assets, or financial instruments.

k) A member noted there was huge sympathy for the position that purchasing a carbon credit should result in an asset, particularly given that banks were actively looking at creating a market in voluntary carbon credits, which had the potential to be sold or used. However, it was less clear whether this was an intangible asset or inventory. Also there was reluctance to recognise internally generated carbon credits as an asset based on the low level of reliability of measurement.

l) The member continued that some entities had questioned whether carbon credits from planting and managing forest could be classed as produce from the forest, rather than accounting for the trees as biological assets requiring valuation. If it was accepted these were assets, it was difficult to establish when they ceased to be assets or became expenses, in terms of amortisation, derecognition, impairment, etc., and what ‘use’ meant.

m) Another member questioned whether IAS 38 Intangible Assets was fit for purpose in this respect. The Chair observed that this could be addressed as part of the IASB climate related risk project.

n) A member commented that the carbon markets are still in their infancy, although they were rapidly taking shape around the world. Trust in these markets and instruments traded on them would be extremely important to users of financial statement and the nature of instruments could cause a host of problems.

o) The UKEB Secretariat invited comments regarding impairment indicators relating to time horizon, risks and opportunities. They noted that one UKEB

Sustainability Working Group (SWG) member had commented that their entity has chosen to age non-current assets to provide transparency to investors regarding which assets had and had not been impaired.

p) Members generally agreed that it would be difficult to separate climate-related impairment indicators from other impairment indicators and that, ultimately, costs and revenues were a function of all risks affecting cash flows, not only climate risk.

q) A member noted that while it was not difficult to consider climate change as an indicator of impairment risk in the short term it become more difficult for longer terms. The member noted that climate change was not generally being factored into discount rates and it was unclear how it would work in practice given most entities tended to use their Weighted Average Cost of Capital.

r) The UKEB Secretariat invited comments about recoverable amounts in relation to a range of scenarios given for climate disclosures. A member noted that this topic was very difficult as the timescales are such that, at present, most of the uncertainty is in the terminal value. This may change over time as transition plans develop and move into the near term.

28. The Chair thanked members for their contributions on this topic.

Horizon Scanning

29. No issues were identified for discussion.

Governance matters.

30. The UKEB Technical Director gave a brief presentation on governance matters relevant to the advisory group's activities.

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31. There was no other business.

END OF MEETING