UKEB
UK Endorsement Board

MEETING SUMMARY of the UKEB's Preparer Advisory Group (PAG) meeting held on 31 October 2023 from 1.30pm to 5.00pm

Agenda Item No.	Agenda Item
	Introduction and objectives of the meeting
1.	Endorsement: Primary Financial Statements – *Presentation and Disclosure in Financial Statements* Education session • Categories and subtotals • Management-defined performance measures (MPMs) • Aggregation and disaggregation
2.	Influencing: Provisions – Targeted Improvements to: • the definition of liability in IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and • the 'present obligation recognition criterion' and the requirements and guidance supporting that criterion.
3.	Influencing: Exposure Draft - Annual Improvements to IFRS Accounting Standards–Volume 11
4.	Inter-meeting feedback requested from PAG members
5.	Horizon scanning
6.	A.O.B.

Present	
Name	**Designation**
Giles Mullins	Chair, PAG
Seema Jamil-O'Neill	Technical Director, UKEB
Hagit Keren (first session only)	Board member, IASB
Ben Binnington (virtual)	PAG member
Chris Buckley	PAG member
Jo Clube (virtual)	PAG member
Cat Hoad	PAG member
Luke Kelly	PAG member
Peter Leadbetter (virtual - first session only)	PAG member
Ian Melling	PAG member
Michelle O'Mara	PAG member
Toby Odell	PAG member

Apologies:
PAG Members - Oliver Hexter, Stephen Morris, Peter Leadbetter (absent after first session)
Chair, UKEB - Pauline Wallace

Relevant UKEB Secretariat team members were also present. IASB project team for Primary Financial Statements were present for that first session only.

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Meeting Minutes

Welcome and Meeting objective

1. The Chair welcomed the Preparer Advisory Group (PAG) members and introduced new PAG member, Michelle O'Mara. The Chair also welcomed the IASB staff member who was presenting the first session, and IASB board member, who was in attendance.

Endorsement: Primary Financial Statements

IASB Staff Presentation – Presentation and Disclosure in Financial Statements

2. The IASB staff gave a presentation on the IASB's forthcoming IFRS Accounting Standard 18 *Presentation and Disclosure in Financial Statements* (IFRS 18), which is expected to be published in Q2 2024. The staff provided an overview of the following three main topics within IFRS 18:

    a) Categories and subtotals;

    b) Management-defined performance measures; and

    c) Aggregation and disaggregation.

3. Following the presentation of each topic, the PAG members were asked to consider the costs and benefits of the requirements in each topic. The Secretariat explained that the feedback from the PAG members is expected to help the UKEB identify significant concern(s) when the project proceeds to the endorsement stage.

Categories and subtotals

4. The UKEB Secretariat invited views on the new requirements for categories and subtotals, specifically:

    a) Whether the PAG members have all the information required to apply the new requirements.

    b) Whether system and/or process changes are needed to obtain the information required, to comply with the new requirements.

    c) What benefits are envisaged with the application of the new requirements.

5. In the ensuing discussion, the following points were highlighted:

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a) Some PAG members considered the new requirements should not have a significant impact on their preparation of financial statements, as they already have systems in place to gather the required information.

b) Some PAG members highlighted that the new requirements may bring in more regularity among entities' financial statements and should work well for general corporates, although they agreed that this may not necessarily lead to comparable financial information for entities with different business models, or in the insurance sector.

   i. Interaction between IFRS 17 *Insurance Contracts* and IFRS 18: One PAG member considered an accounting policy choice[1] in IFRS 17, coupled with the requirements of IFRS 18, may not lead to comparable information between insurers.

c) A PAG member noted that the foreign exchange gains or losses could be posted to one single account in the financial system and/or centrally managed by the entity's treasury function. They envisaged additional work would be needed to allocate the foreign exchange gains or losses into the different categories (operating, investing and financing).

d) Another PAG member considered there could be circumstances where joint ventures are within an entity's main business activity and therefore should be allocated to the operating category in the income statement. However, the line items related to joint ventures are required to be in the investing category in the income statement under IFRS 18. The PAG member considered this could be confusing and not reflective of the actual operating profit.

e) PAG members considered more guidance on the requirements for categories and subtotals would be helpful.

Management-defined performance measures (MPMs)

6. The UKEB Secretariat invited views on the new requirements on management-defined performance measures, specifically:

   a) Whether the MPM requirements would improve transparency of the performance measures and provide better insights into the management views.

[1] For example, paragraphs 88 to 90 of IFRS 17 contains an accounting policy choice for entities to 1) include the insurance finance income or expenses in the profit or loss; or 2) include some insurance finance income in the other comprehensive income.

b) Whether allowing three options for the tax effect calculation for each reconciling item in the MPM reconciliation would reduce the cost of providing the information.

c) Whether the PAG members have all the information required to apply the new requirements of effects of tax and non-controlling interests in the MPM reconciliation.

d) Whether system and/or process changes are needed to obtain the information required to comply with the new requirements.

7. In the ensuing discussion, the following points were highlighted:

a) Some PAG members considered the boundary between Alternative Performance Measures (APMs) and MPMs may be potentially confusing to the users of financial statements. They also envisaged challenges communicating MPMs internally and externally, particularly with regard to the scope of MPMs. The members noted the co-existence of two sets of performance measures could be confusing and lead to duplication within the annual reports.

b) A PAG member highlighted that potentially more internal controls may be needed on the investor relations material, because the MPMs will be required to be signed off by the auditors unlike the APMs. Another PAG member commented that there would need to be further communication around the scope of MPMs.

c) Some PAG members noted that the three options for the tax effect calculation for each reconciling item within the MPM reconciliation should allow entities to obtain reasonable estimates of the tax effects for each reconciling item, although these may be more difficult to apply to Alternative Minimum Taxes, for example the Pillar 2 top-up tax[2]. However, they did not consider the effect of the Pillar 2 top-up tax to be significant, as the effect will be limited to operations in the jurisdictions that have a corporate tax rate of less than 15%.

d) A PAG member asked whether the MPM disclosures line up with the ESMA guidance. The IASB staff responded that discussions have been held with regulators and it seems that the MPMs guidance should result in compliance with ESMA guidance. However, it will depend on the measures being used and the presentation of MPMs as a whole.

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2 This is referring to International Tax Reforms - Pillar Two Model Rules (Amendments to IAS 12).

Aggregation and disaggregation

8. The UKEB Secretariat invited views on the new requirements on aggregation and disaggregation, specifically:

   a) Whether the required information for the disclosure of specified expenses by nature would be difficult to obtain or lead to financial system/process change.

   b) Whether any change to the level of aggregation and disaggregation of information in the financial statements are envisaged.

   c) What PAG members' views are on the IASB's decision of allowing 'mixed presentation'[3] of operating income and expenses.

9. Some PAG members considered the overall application of IFRS 18 could lead to significant cost and additional work during the implementation.

Specified expenses by nature

10. The discussion focused on the disclosure of specified expenses by nature. The following points were highlighted during the discussion:

    a) Some PAG members considered the disclosure of specified expenses by nature may not lead to useful information and could be confusing. Several examples were raised during the discussion and two of them are highlighted below:

       i. If the inventory levels at the beginning and at the end of the reporting period are significantly different, the information can be distorted and not be a close proxy for the expense incurred and may not necessarily be aligned with the amount of the line-item *cost of sales* on the face of the income statement.

       ii. On write down of inventory, the inventory will have depreciation and employee benefits in it before it is written down, so the amounts disclosed could result in double-counting of the expenses within the note disclosure.

    Some PAG members noted that their financial management systems should be able to capture the information, therefore they did not expect significant additional cost for applying the new requirements. They also noted that the disclosure should provide more granular information for the users of financial statements.

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[3] This could be a presentation a) mainly by function and some other expenses by nature; or b) mainly by nature and some other expenses by function.

b) Some PAG members commented that it will take additional work or re-engineering of the financial systems to collate the information into one single note. They observed that some financial systems may not have the granular information for the required disclosure at the group level because the granular information is only stored at the entity level (pre-consolidation), so changes will need to be made to the consolidation systems to gather the necessary information.

11. The Secretariat thanked the PAG members for their input. The PAG chair thanked the IASB board member and the IASB staff for the presentation and attendance.

Influencing: Provisions – Targeted Improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

12. The UKEB Secretariat provided an overview of proposals[4] developed by the IASB staff to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

13. The IASB staff propose amendments[5] to one of the three criteria for recognising a provision in accordance with IAS 37 paragraph 14, more specifically, the 'present obligation recognition criterion'. The amendments propose separating this criterion into three separate conditions, as follows:

    a) strength condition – the entity has an obligation (a responsibility the entity has no practical ability to avoid);

    b) nature condition – the obligation is to transfer an economic resource; and

    c) timing condition – the obligation is a present obligation as a result of past events.

14. The technical discussion focused on the proposed amendments considering their application to net-zero commitments.

15. In the ensuing discussion, the following points were highlighted in relation to IASB staff illustrative example 2 - Net zero commitment:

    a) The example seemed rather simplistic and focused on present times, but it could become more challenging to justify, especially as we get closer to the sustainability target years of 2030 and 2050.

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4 The IASB staff proposals were presented to the IASB at its April 2023 meeting. The IASB was not asked to make any decisions.

5 The IASB staff is also exploring potential amendments to the rate to discount a long-term provision and to the costs included in measuring an obligation. However, these proposals were not discussed at this PAG meeting.

b) One member questioned the IASB staff conclusion that an announcement of an entity's net zero commitments satisfied the 'strength' condition (no practical ability to avoid).

c) Another member questioned the conclusion in the example that one of the entity's commitments didn't meet the 'nature' condition (that is, there would be no transfer of economic resources) as there would likely be some costs arising from changing an entity's processes.

d) The UKEB Secretariat noted that in practice entities would need to consider requirements in other IFRS Accounting Standards (e.g. IAS 36 for assessing impairment of existing assets when an entity purchases new assets) without necessarily leading to an IAS 37 provision.

16. One member believed there is public pressure surrounding climate commitments without an understanding of the rigour required to recognise an asset and liability under IFRS. A more urgent issue is to provide application guidance on how to price carbon and how to account for actions in reducing future emissions.

17. Another member added that IAS 37 exists for a reason: in the past, companies booked liabilities for things that were not liabilities. That member considered climate commitments belong in the front half of the annual reports (i.e. sustainability reporting), and does not see a reason for which they should be reflected in the financial statements. The standard had restricted the use of provisions, and in his view, this was correct.

18. One member considered the existing requirements in IAS 37 work well and there is a danger that amending the standard could create confusion and might result in diversity in practice. That member suggested the best first step would be to require companies to publish a transition plan proportionate to the entity's size. If the entity did not have a liability under IAS 37, they could be required to explain why not.

19. One member questioned whether there could be potential unintended consequences for other scenarios, such as those arising from legal cases.

20. Overall, members highlighted the difficulty of discussing the connection of provisions to net zero commitments. Another member raised additional complexities for other commitments such as waste, water, nature and biodiversity.

21. One member welcomed the proposed changes in relation to IFRIC 21 liabilities.

22. The UKEB Secretariat noted the IASB is expected to decide the project direction in December 2023. A question was expected to be submitted to the IFRS Interpretations Committee in relation to when an entity should account for a provision for net-zero commitments based on existing IAS 37 requirements.

Influencing: Exposure Draft - Annual Improvements to IFRS Accounting Standards–Volume 11

23. The UKEB Secretariat project team provided background information on the Exposure Draft (ED) Annual Improvements to IFRS Accounting Standards–Volume 11 (Annual Improvements) which includes eight proposed amendments to a number of IFRS Accounting Standards.

24. One PAG member questioned if the Annual Improvements could lead to a change in the accounting practice. The Secretariat clarified that Annual Improvements are not expected to lead to a change in the accounting practice because they are limited to changes that either clarify the wording in an IFRS Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of the Standards.

25. PAG members were asked if they thought there was potential change resulting from the proposals in the ED. No one identified any expected changes in accounting practice.

26. The Secretariat thanked the PAG members for their input and encouraged PAG members to give an official response to the recently published UKEB Draft Comment Letter on the proposed amendments, which has a consultation period ending on 20 November 2023.

Inter-meeting feedback requested from PAG members

27. The PAG Chair thanked members for their inter-meeting feedback which supported the UKEB's publication of the following documents:

Endorsement project

a) Supplier Finance Arrangements[6] - Draft Endorsement Criteria Assessment (DECA) *Supplier Finance Arrangements* - Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The DECA was published for public consultation on 20 July with a 90-day comment period ending on 18 October 2023.

Influencing projects

b) ISSB Agenda Priorities[7] - Final Comment letter to the ISSB on its Agenda Priorities was submitted on 11 August 2023.

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6 The UKEB project page on Supplier Finance Arrangements can be found here.

7 The UKEB project page on the ISSB Request for Information can be found here. The UK does not yet have an endorsement framework in place for the adoption of ISSB Sustainability Disclosure Standards. Until that framework is in place, the UK Government, has asked the UKEB, the Financial Conduct Authority (FCA) and the

c) Post-implementation review of IFRS 9 *Financial Instruments* – Impairment[8] - Final Comment letter to the IASB was submitted on 26 September 2023.

d) Post-implementation review of IFRS 15 *Revenue from Contracts with Customers*[9] - Final Comment letter to the IASB was submitted on 26 October 2023.

Horizon Scanning

28. The Chair opened the session and asked for member views on issues over the horizon, noting in the last meeting members spoke about sustainability investments.

Sustainability and climate-related issues

Connectivity to accounting standards

29. One PAG member noted that the IASB appears to be looking to 'tweak' certain accounting standards, for example IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* through the Annual Improvements process, to address accounting concerns related to climate -related risks and sustainability; the member suggested that perhaps it would be better for the IASB to issue one new standard to cover accounting for climate-related risks and sustainability.

30. The Secretariat highlighted that the IASB's standards are principles-based and therefore expected to address all financial reporting needs, including climate-related and sustainability reporting. However, new fact patterns are continually emerging. Preparers are finding that accounting for specific items using the existing IFRS guidance is challenging so that in the absence of new guidance judgements made may lead to diversity in accounting for such items. It was noted that if new illustrative examples (IEs) are provided by the IASB, the UKEB would not formally adopt, because IEs are outside the UKEB's scope for endorsement and adoption.

31. Another member noted that the government policy change could have an impact on the speed of change and the subsequent effect on financial reporting, for example if they established new legal requirements around climate-related risks and sustainability. Such legislation could impact accounting for provisions, for example, where there is a legal obligation and therefore more certainty around a future obligation.

32. The Secretariat also noted that climate-related risks are on the Accounting Standards Advisory Forum (ASAF)'s agenda for December 2023, so PAG

Financial Reporting Council (FRC) to engage with the International Sustainability Standards Board (ISSB) and to respond to their consultations, according to their respective regulatory objectives and functions.

8 The UKEB project page on the PIR of IFRS 9 *Financial Instruments* – Impairment can be found here.

9 The UKEB project page on the PIR of IFRS 15 *Revenue from Contracts with Customers* can be found here.

members' views on accounting standard setting changes required would help UKEB convey the UK view on this matter.

33. Another member commented that there appeared to be a disparity between the disclosures they are providing in their financial statements, applying the requirements of the existing IFRS Accounting Standard (e.g. around their fair value or market value valuation methodology for their category 15 investments in relation to their scope 3 emissions[10]), versus the expectation from those disclosures by investors and other users.

Accounting for Carbon credits and pollutant-pricing mechanism (PPM)

34. One member noted that a rapidly emerging issue that does not seem to have been addressed is how to value carbon credits. The member gave the example of provision of funds for customers to invest in trees/forests, river restoration and peat bog restoration. In return the customer gets credits for carbon-offset. For trees/forests the Red Book valuation[11] to value the fund is used, but for other types of investment there is no suggested valuation method. This is a potential risk, as customers are investing in funds whose value is potentially not reflective of the carbon capture created by that fund.

35. The Secretariat noted that the IASB will not include pollutant pricing mechanism (PPM).

36. Another member would be keen to hear if the big four audit firms are aligning on their views of accounting for carbon credits. The member noted their entity has been selling internally generated carbon credits for some time and it has taken their auditor a year (consulting globally) to reach an opinion on the accounting.

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10 Scope 3 encompasses emissions that are not produced by the company itself and are not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain. An example of this is when we buy, use and dispose of products from suppliers. Category 15 investments include scope 3 emissions associated with the reporting company's investments in the reporting year, not already included in scope 1 or scope 2. This category is applicable to investors (i.e. companies that make an investment with the objective of making a profit) and companies that provide financial services. This category also applies to investors that are not profit driven (e.g. multilateral development banks), and the same calculation methods should be used. Investments are categorized as a downstream scope 3 category because providing capital or financing is a service provided by the reporting company.[Source: Greenhouse Gas (GHG) Protocol's Technical Guidance for Calculating Scope 3 Emissions]

11 Valuations are undertaken by members of the Royal Institution of Chartered Surveyors (RICS) and are prepared in accordance with the RICS Valuation – Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2022 together, where applicable, with the UK National Supplement effective 14 January 2019, together the 'Red Book'. The Red book indicates which of the five valuation methods a valuer should adopt, depending on the type of property. These valuations can only be undertaken by Registered Valuer (RV); that is an RICS surveyor who is a member of the RICS Valuation Registration Scheme. A Red Book valuation is designed to meet the high standards set by the RICS, guaranteeing the valuer's qualification and the minimum report content, adhering to accepted and consistent standards which provides public confidence.

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Endorsement: *Lack of Exchangeability* (Amendments to IAS 21)

37. The Secretariat informed PAG members that on 15 August 2023 the IASB published its narrow-scope amendments *Lack of Exchangeability* (Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates)*. The amendments include guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

38. The Secretariat aims to present a Draft Endorsement Criteria Assessment (DECA) at the 30 January 2024 Board meeting, which subject to approval, will be published for public consultation with a 90-day comment period.

39. Feedback from PAG members was that the amendments appear to be generally consistent with current practice in the UK. There appears to be no call from UK companies for early adoption of the amendments.

Other matters

40. The Chair notified the PAG members that there are two UKEB Non-Executive member vacancies and also capacity for a further PAG member.

41. The Chair shared the proposed PAG meeting dates for 2024, noting that the next meeting is scheduled to take place on Tuesday 5 March 2024, followed by meetings on Monday 17 June 2024 and Monday 28 October 2024.

42. There being no other business, the meeting closed at 16.55.