UK Endorsement Board

Summary of the Financial Instruments Working Group meeting held on 1 April 2025 from 2pm to 5pm

Meeting agenda

Item no.	Item
1	Welcome
2	Technical discussion: Financial Instruments with Characteristics of Equity
3	Technical discussion: Contracts Referencing Nature-dependent Electricity: Amendments to IFRS 9 and IFRS 7
4	Technical discussion: Post-implementation Review: IFRS 9 Hedge Accounting
5	Horizon scanning
6	UKEB/IASB staff stakeholder outreach: Amortised Cost Measurement
5	Any other business

Attendees

Present	
Name	**Designation**
Peter Drummond	Chair, Financial Instruments Working Group (FIWG)
Alan Chapman	FIWG member
Fabio Fabiani	FIWG member
Helen Shaw	FIWG member
Kumar Dasgupta	FIWG member (virtual attendance)
Mark Randall	FIWG member
Mark Spencer	FIWG member (virtual attendance)

Richard Crooks	FIWG member
Sarah Bacon	FIWG member (virtual attendance)
Stacey Howard	FIWG member
Laura Kennedy	Observer (Bank of England)

In attendance	
Name	**Designation**
Pauline Wallace	Chair, UKEB
Tony Clifford	Board member, UKEB
Seema Jamil-O-Neill	Technical Director, UKEB

Apologies: Robbert Labuschagne (FIWG member).

IASB staff members were present for the sixth agenda item 'Amortised Cost Measurement' only.

Relevant UKEB Secretariat team members were also present.

Welcome

1. The Chair of the FIWG welcomed members, the observers and those in attendance to the meeting.

2. The Chair announced that due to a change in professional circumstances, Brendan van der Hoek stepped down from the FIWG. The Chair thanked him for his contributions to the FIWG and wished him well in his future endeavours.

Technical discussion: Financial Instruments with Characteristics of Equity

3. The Secretariat asked FIWG members for their views on three key matters:

   a) The IASB's preferred 'Bridge approach' to the presentation proposals in the IASB's Exposure Draft: Financial Instruments with Characteristics of Equity (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.

4. Members were of the view that the Bridge presentation approach looked sensible. There was some discussion about the practical complexity of allocating profit to the different categories of equity instruments with e.g., contingent or future profit participation rights.

5. On the disclosure proposals, members were unclear on exactly what was being proposed. Some questioned the purpose of the disclosures and the value of information that would be provided to users. One member noted that what was still unclear to them was what the overall disclosures were intended to look like. They referred positively to the dialogue that had taken place on the Taskforce on Disclosures about Expected Credit Losses in the UK, and how the process of finding a middle ground between users and preparers led to better disclosure recommendations.

6. On timing, there was a general consensus that dealing with all aspects of the proposal together, rather than expediting certain parts, was a sensible approach. It was noted that as other parts of the project were finalised, disclosures might need to be considered again in the light of the final decisions taken.

Technical discussion: Contracts Referencing Nature-dependent Electricity: Amendments to IFRS 9 and IFRS 7

7. FIWG members were asked a number of questions pertaining to the UKEB's recently published Draft Endorsement Criteria Assessment (DECA) *Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity*.

8. Overall, members were supportive of the Amendments and were of the view that they were capable of being applied in practice. However, with the passage of time, and as the electricity market evolved, judgement would be required in applying the Amendments.

    a) Members acknowledged the possibility of entities failing the net purchaser assessment due to one-off reductions in demand and, as a result, being required to fair value contracts for their remaining lives. However, it was noted that this would also be the case without the Amendments, and in such circumstances commercial considerations would be more important for entities than accounting ones. One FIWG member observed that the potentially restrictive nature of the own-use Amendments was in line with the IASB's intended narrow scope.

    b) Members were of the view that hedge accounting would be possible but that the requirements would not be straightforward to apply given their technical complexity. There was some discussion of the challenges of valuing the hedged item, but these were not considered to be insurmountable.

9. Members briefly discussed the tentative conclusion in the DECA that the Amendments would not give rise to a significant change in accounting practice in the UK. It was noted that in the context of the number of companies potentially affected, and the size of the impact, the feedback received to date did not suggest that the impact in the UK would be significant.

Technical discussion: Post-implementation Review: IFRS 9 Hedge Accounting

10. The purpose of this session was to gather information to assist in determining the scope of the UKEB's work on this project and to identify potential issues with the IFRS 9 *Financial Instruments* hedge accounting requirements. The UKEB Secretariat provided members with a summary of the IASB's post-implementation review process.

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

    a) Most UK banks and building societies choose to apply, in part or in full, the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. It was also noted that hedge accounting is not significant for most UK insurers. Members observed that corporate entities may have more experience of applying the hedge accounting requirements of IFRS 9.

    b) Members considered there were no fatal flaws within the hedge accounting requirements of IFRS 9. However, there may be other potentially significant issues such as the hedging of inflation risk and issues related to rebalancing the hedging relationship. The recent changes to the hedge accounting requirements in the *Amendments to IFRS 9 and 7 – Contracts Referencing Nature-dependent Electricity* were also discussed.

12. Members were asked about the potential impact of any future transition from IAS 39 to IFRS 9 for accounting for their 'micro-hedging' strategies. It was generally agreed that this transition was not expected to have a significant impact.

Horizon scanning

13. The Chair asked members for information about current or emerging issues in the financial reporting environment for financial instruments, that members considered warranted discussion during this or a future meeting.

14. FIWG members suggested monitoring the following projects, currently in the IASB Work Plan (in alphabetical order):

    a) Agenda Consultation.

    b) Post-implementation Review: IFRS 16 Leases. On this topic it was mentioned that the IASB should consider interaction with other standards

(e.g. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*)

15. The topics in the above paragraph are incremental to those suggested by FIWG members at the FIWG 13 January 2025 meeting.

UKEB/IASB staff stakeholder outreach: Amortised Cost Measurement

16. The IASB project team joined the meeting and provided an overview of the IASB's research project *Amortised Cost Measurement*. Over the years, the IASB had received a number of questions on the topic, and the IASB project team were keen to understand the root causes of these application issues. Stakeholder feedback would enable the IASB to understand if standard setting was an appropriate solution and, if so, to develop a solution that would reduce diversity in practice.

17. The IASB team asked FIWG members about challenges they faced in applying the requirements related to the estimation of expected cash flows for the purpose of calculating effective interest rates (EIR) under IFRS 9 *Financial Instruments*, both at initial recognition and subsequently. The discussion at the meeting was wide ranging and comments included:

    a) Members observed that entities employed both probability-weighted and best estimate models for calculating EIR but it was considered that this variety might be appropriate to accommodate differing circumstances. Best estimate models have been used by both banks and corporates. Probability-weighted estimates were mainly used by banks applied at portfolio level.

    b) Regarding 'teaser' or introductory rates on certain financial instruments, it was noted that there was diversity in practice. Some entities account for those instruments considering a blended rate for the entire life of the financial instrument. Others consider the fixed teaser rate as the EIR in the introductory period and subsequently updated this when the rate on the instrument changed to a floating rate. There was a view that a number of application issues originated from a reversion to market rates and how that should be treated from an accounting perspective.

    c) There was some discussion about what was meant by a 'market rate' for purposes of applying B5.4.5. In relation to credit ratchets, it was noted that in the UK they tend to be quite specific and contractually specified up-front. FIWG members noted they are typically accounted for in accordance with the requirements in B5.4.5 (i.e. by adjusting the EIR) as it was considered that the credit risk is one of the building blocks of the interest rate (as noted in the Solely Payments of Principal and Interest guidance in B4.1.7A).

18. The IASB project team also asked how entities assess whether a modification of a financial instrument is substantial and therefore leads to derecognition. Members were of the view that different approaches were applied. For financial liabilities, most entities considered the quantitative 10% test (paragraph B3.3.6 of IFRS 9) as well as qualitative factors. For financial assets, a similar approach is applied, but the interaction with the impairment model is also considered. It was noted a partial derecognition approach was most commonly used in scenarios where the principal was affected, such as a partial repayment of principal.

19. The Chair thanked the IASB project team for the presentation.

Any other business

IFRS Interpretations Committee pipeline

20. In response to the questions asked within the request *Incremental transaction costs (IFRS 9)*[1] in the IFRS Interpretations Committee pipeline, members noted that they were not aware of widespread material diversity in their experience. In practice, transaction costs within the scope of IFRS 9 would include certain preparatory costs and would also be accounted for as a prepayment if the related financial asset or financial liability was expected to be recognised in the subsequent period.

21. There being no other business, the meeting closed.

1 Please see *Incremental transaction costs (IFRS 9)* on IFRS Interpretations Committee's website.