

# Meeting Summary of UKEB's Academic Advisory Group meeting held on 12 April 2024 from 11:00 to 16:00

## Meeting Agenda

Item No.	Item
1	Economics – Costs and benefits for preparers
2	IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> –Update and survey discussion
3	Exposure Draft: <i>Business Combinations–Disclosures, Goodwill and Impairment</i> – Discussion
4	Intangibles Research Update
5	Horizon Scanning
6	Any Other Business

Present	
Name	Designation
Mike Wells	Chair, AAG and Member, UK Endorsement Board
Amir Amel-Zadeh	Member, UK Endorsement Board
Robin Cohen	Member, UK Endorsement Board
Alan Jagolinzer	AAG Member
Christian Stadler	AAG Member
Francisco Urzua	AAG Member
Ioannis Tsalavoutas	AAG Member
Janice Denoncourt	AAG Member
Ronita Ram	AAG Member
Stefano Cascino	AAG Member
Hafez Abdo	AAG Member
Alan Jagolinzer	AAG Member

Apologies were received from Wei Jiang, AAG member. Hafez Abdo was unable to attend part of item 2. Robin Cohen attended items 1 and 2.

Relevant UKEB Secretariat team members also attended the meeting.

## Welcome and Introduction

1. The Chair welcomed members to the Academic Advisory Group (AAG) meeting.

## Economics – Costs and benefits for preparers

2. The UKEB Secretariat provided an overview of the UKEB's approach to the assessment of costs and benefits for preparers as part of the long term public good assessment, which is required within the regulatory framework when a new or amended Standard goes through the endorsement process. The aim of the session was to gather feedback on how to identify and measure costs and benefits.

3. The Secretariat introduced the Better Regulation Framework (BRF), a set of guidance that applies across UK government for the appraisal of policy/regulation. While the UKEB is not formally in scope of BRF, it voluntarily follows its principles.
4. There was discussion among the group about the measurement and indirect or direct nature of costs and benefits, and the £10m threshold over which a full economic impact assessment is needed under the BRF. In particular, the group noted that:
  - a) costs are largely borne by preparers;
  - b) direct adoption benefits are largely gained by users of financial statements; and
  - c) an indirect adoption benefit is that preparers should expect lower cost of capital in the long term because of the increased transparency and comparability of financial statements post-adoption.
5. The Secretariat is developing a generalised cost model (an internal taxonomy) setting out the different types of costs borne by preparers, which will be tailorable to allow for proportionality in the assessment. AAG members' views were sought on the nature of the costs included in the draft model presented by the Secretariat. The views provided by AAG members include:
  - a) confirmation that the costs should be marginal/incremental;
  - b) stakeholders other than preparers might also be able to provide input on costs;
  - c) there could be other costs which are not captured in the model under development, so 'other' costs should be allowed for; and
  - d) not all preparers would be expected to have all costs set out in the model.

## **IFRS 18 *Presentation and Disclosure in Financial Statements*—Update and survey discussion**

6. The Secretariat presented:
  - a) an overview of the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements*, which was published by the IASB on 9 April 2024;
  - b) a summary of stakeholder views identified in preliminary outreach with the other UKEB Advisory Groups; and
  - c) a draft timeline for the UKEB's endorsement work of IFRS 18 based on the [Project Initiation Plan](#).
7. An AAG member observed inconsistency in disaggregating information year on year within certain companies' financial statements. It was noted that this could be a regulatory rather than a standard-setting issue.

### **Discussion on surveys**

8. The purpose of the session was to seek input from the AAG members on the survey that the Secretariat is planning to use to gather information from stakeholders about significant IFRS issues.
9. The group provided feedback on the overall survey design of the draft preparer survey and the draft survey questions in it. The group also made suggestions for potential survey distribution channels.
10. The Secretariat confirmed that, with a view to seeking further input from the group, an improved draft of the preparer survey and a draft of the user survey would be circulated to AAG members.

## **Exposure Draft: *Business Combinations—Disclosures, Goodwill and Impairment* – Discussion**

11. The purpose of the session was to seek feedback from the AAG members on the IASB proposals in the [Exposure Draft \*Business Combinations—Disclosures Goodwill and Impairment\*](#) (the ED), to inform the UKEB Draft Comment Letter.
12. The Secretariat provided:
  - a) an overview of the of the proposed amendments to IFRS 3 *Business Combinations* and to the impairment test in IAS 36 *Impairment of*

*Assets*, as set out in the 'ED', which was published by the IASB on 14 March 2024;

- b) a summary of stakeholder views identified in preliminary outreach with the other UKEB Advisory Group meetings; and
- c) a timeline for the UKEB's influencing work based on the [Project Initiation Plan](#).

### Proposed amendments to IFRS 3 *Business Combinations*

13. The Secretariat referred to the proposed amendments to IFRS 3 and the [literature review](#) published by the IASB in May 2021, which summarised the evidence from academic papers on topics relevant to the questions in the [Discussion Paper Business Combinations – Disclosures, Goodwill and Impairment](#) and noted the key conclusions.
14. AAG members raised concerns about the faithful representation of the proposed required information:
  - a) *Management bias* – it was questioned whether information disclosed would be informative and useful, due to management determining the key objectives and targets and reporting against them, and the availability of the exemption, i.e. could the requirements drive management behaviour to set low targets that are achievable or use the exemption?
  - b) *Transparency* - would management be open about their true intentions, if doing so could lead to a reduction in competitiveness, for example to acquire further acquisitions in the same market?
15. With regards to the requirement to disclose quantitative information about expected synergies, members raised the following concerns:
  - a) *Management's view can change over time* - i.e. synergies expected at the time of acquisition, may not materialise, but other synergies may subsequently be apparent, that still justify the price paid. Because disclosure of quantitative information for expected synergies is only required in the year of acquisition, there is no requirement, or indeed opportunity, to disclose any such changes in expectations, and therefore users may not receive the information they need.
  - b) *Information provided could be confusing* - if expected synergies at the time of acquisition are also the management's acquisition-date key objectives/targets for a strategic business combination, the entity would then be required to report whether those acquisition-date targets were met in subsequent periods. A user might then

expect to see an impairment, if acquisition-date targets are not met. In this scenario, voluntary disclosure in a subsequent period of the unexpected synergies realised, could be made to more faithfully represent the current position as to why no impairment was necessary, so that users receive the information they need.

16. The secretariat confirmed that the ED does not mention the '*measurement period*' which is currently available in IFRS 3, to adjust other information at a later date, that was estimated at the time of the acquisition.
17. The discussion moved on to the identification of 'strategic' business combinations, and the proposed closed list of quantitative and qualitative thresholds.
18. AAG members raised the following issues regarding the quantitative thresholds for identifying strategic acquisitions:
  - a) *Partial acquisitions* – it was questioned how the threshold would apply, for example where 60% of the equity of the target company was acquired. In that instance, would the 10% threshold of total assets acquired (including goodwill) apply to 100% or 60% of the fair value of the acquired company's assets (including goodwill)?
  - b) *Driving behaviour* – it was suggested that acquisition stakes may be kept low, so as to not require disclosure about an acquisition under the proposals for 'strategic' business combinations.
19. No specific concerns were raised about information required to be disclosed for 'strategic' business combinations, being that information monitored by key management personnel (KMP), as described in IAS 24 *Related Party Disclosures*, as opposed to chief operating decision maker (CODM) referred to in IFRS 8 *Operating Segments*.
20. During the discussion, the following general comments were made:
  - a) *Location of information* - one AAG member suggested that the proposals are to make certain disclosures mandatory, because only some companies provide such information voluntarily in the financial statements or in management commentary. The Chair suggested that due to the proposed location of the new requirements in the notes to the financial statements, the information would be subject to audit, which may address some of the concerns raised, by providing more assurance to users of the financial statements.
  - b) *Effects on M&A activity* - one AAG member questioned whether the proposed disclosure requirements would be likely to change merger and acquisition (M&A) behaviour, for example, make M&A less likely.

However, in the ensuing discussion it was noted that this would be unlikely, given the available exemption from disclosing some of the information, if disclosure would be likely to prejudice seriously the achievement of any one of the acquirer's acquisition-date key objectives for the business combination.

- c) *Timeliness of impairment* - members agreed that the proposed new disclosures would make it more difficult for a company not to impair a cash-generating unit containing goodwill, where acquisition-date targets are not met, albeit there may be headroom in the business into which the acquisition is integrated, resulting in no impairment being recognised.
- d) *Number of acquisitions affected* - one member noted that their research suggested that only 5% of acquisitions would fall into the subset of 'strategic' business combinations, as defined by the quantitative and qualitative thresholds in the proposals.

### Proposed amendments to IAS 36 *Impairment of Assets*

- 21. The Secretariat referred to the proposed changes to IAS 36.
- 22. Regarding the proposal to remove the constraint which currently prohibits the value in use calculation from including cash flows from future 'uncommitted' restructuring and asset enhancement, one AAG member highlighted their concern with reliability of the assumptions in cash flows and the impact of over-optimism.
- 23. From the ensuing discussion it was not clear to members why the removal of the constraint is proposed. The secretariat clarified that the IASB's intention was to reduce the cost of the impairment test by requiring the entity to use internally consistent cash flows for the value in use calculation, to save entities adjusting internally used cash flows solely for the purpose of the value in use calculation.

### Intangibles Research Update

- 24. The UKEB Secretariat provided an overview of the main themes in the forthcoming survey and quantitative reports, which are expected to be published in the last full week of April 2024. The Board approved publication of these two reports subject to some amendments at their March meeting.
- 25. The Secretariat summarised lessons learned from the survey. Noting particularly that feedback received from the AAG and piloting was very useful.

26. AAG members noted that low response rates are a common issue in academic research, and technical questions tend to put respondents off responding. If technical issues need to be teased out, focus group or small group events could be used for this purpose, with subjects who have the right expertise to give high quality input.
27. The Secretariat also highlighted that an area has emerged since the survey was conducted – creditors (lenders) would like this information and it would help them deal with regulatory capital requirements. Previously it was thought that lenders generally disregarded intangibles. AAG members identified a number of relevant academic studies that would be useful to explore further.
28. AAG members were asked to raise awareness about the reports once they are published.

## Horizon Scanning

29. Members highlighted:
  - a) Hybrid capital structures. The Secretariat confirmed that would be relevant to the financial characteristics of equity project (as this is an IASB open project).
  - b) Forthcoming IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. A recent paper written by an AAG member highlights the potential interaction between this forthcoming new Standard and UK company law, where the forthcoming new standard would be prohibited for use by a parent, and by their subsidiaries.

## Any Other Business

There were no items raised.

### END OF MEETING

**Next AAG meeting is currently scheduled for 17 September 2024.**