Minutes of UKEB's Investors Advisory Group (IAG) meeting held on 08 February 2023 from 13:00 to 17:00

Present	
Name	**Designation**
Pauline Wallace	Chair, UK Endorsement Board
Seema Jamil-O'Neill	Technical Director, UK Endorsement Board
Paul Lee	Chair, IAG
Sandra Thompson[1]	Board member, UK Endorsement Board
Christopher Bamberry	IAG member
Louise Dudley	IAG member
Nicole Carter	IAG member
Rupert Krefting	IAG member
Alastair Drake	IAG member
Stanislav Varkalov	IAG member
Tony Silverman	IAG member

Relevant UKEB secretariat team members were also present.

[1] Attended from 4pm, for discussions on Supplier Finance, Horizon Scanning and AOB

Welcome and Introduction

1. The Chair welcomed the Investor Advisory Group (IAG) members to the meeting.

IAS 1 Presentation of Financial Statements 2020 and 2022 Amendment

Joint assessment and adoption of IAS 1's 2020 and 2022 Amendments

2. The IAG had a brief discussion of:

   a) The three UKEB project types – endorsement, influencing and research projects; and

   b) The process of, and assessment criteria for, endorsement as enacted in SI 2019/685.

3. The IAG considered a paper on two proposed amendments to IAS 1 *Presentation of Financial Statements*. Specifically:

   a) *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) (the 2020 Amendments), issued by the International Accounting Standards Board (IASB) in January 2020; and

   b) *Non-current Liabilities with Covenants* (Amendments to IAS 1) (the 2022 Amendments), issued by the IASB in October 2022.

   c) Both amendments have an effective date of 1 January 2024.

   d) A draft endorsement criteria assessment of the two Amendments will be discussed by the UKEB at its February 2023 meeting, with publication for stakeholders' comments to be expected shortly thereafter.

4. IAG members were asked about new disclosure requirements included in the amendments, which focus on disclosure of information about debt with covenants. The following points were highlighted during the discussion:

   a) Importance/Information need – Similar information is included in certain companies' management disclosures, indicating a market need for it. One of the IAG members indicated that they use the information provided on covenants for comparison and confirmed that it is important.

   b) Consistency – Members suggested that the management disclosures on covenants are not consistent. The macroeconomic circumstance, for example a financial crisis or the recent pandemic, and the complexity of the company's liabilities, e.g. US Private Placement, may motivate certain companies to disclose more information. It was agreed that consistent disclosures would be useful and encourage higher quality information.

c) Materiality/level of the disclosure – Members questioned the level of the disclosure that the requirements would generate. For example, would the disclosure capture loans that are repayable in a complex company group structure or would that disclosure be obscured due to application of financial materiality.

d) A point in time assessment: Members acknowledged that the disclosure was a point in time assessment for the classification of liabilities. That is, the classification would not rely on extensive management forecasts when it came to covenants.

5. The IAG members were overall supportive of the Amendments. One member had responded to the ED with a comment letter to support the 2022 Amendments.

6. IAG members were asked if they had any concerns with the wider requirements of the IAS 1 Amendments, but none were indicated.

Research: Accounting for Intangibles

Intangibles Qualitative Research Project

7. The Secretariat presented their ongoing research on intangible assets, and in particular results from qualitative research summarising stakeholders' views on IAS 38.

8. The IAG provided the following feedback to the secretariat:

a) One IAG member said that it would be better to provide granular information on expenses related to intangibles rather than to recognise more assets, as recognising more intangibles on the balance sheet may undermine their credibility. They were also in favour of providing alternative disclosures including on KPIs and related risks;

b) One IAG member noted that to be recognised, intangible assets should be clearly identifiable and saleable. Absent these conditions it would be better to see granular expense information;

c) Another IAG member supported more granular disclosures through the income statement;

d) One IAG member questioned the usefulness of intangible assets on the balance sheet for companies' valuations. They noted that granular information on maintenance vs expenses on intangibles could be useful in determining the key drivers, especially for some industries where intangibles are more strategic;

e) A member observed that there was a view amongst some commentators (not investors) that the balance sheet should represent the market value of the company in some way, whereas it had never been about that.

Intangibles Investor Survey Project

9. The Secretariat informed the IAG that the UKEB intended to commence survey-based research on intangible assets, focusing on investors' views. The IAG members were asked to suggest potential questions to be included in the surveys and topics to focus on.

10. The IAG made several suggestions on specific questions that should be included, how intangibles are currently being treated between industries, and companies of different sizes and whether investors treat acquired intangibles differently from intangibles developed internally. They also suggested some specific intangibles, such as emission trading scheme (ETS) assets, that should be explored.

IFRS 9 Financial Instruments

IFRS 9 Impairment Post Implementation Review

11. The IAG considered a presentation on the IASB's forthcoming Post-implementation Review of IFRS 9 *Financial Instruments*. The nature and timing of the post-implementation review, the role of the UKEB in such a review, and the impairment requirements of IFRS 9 were discussed with members.

12. Members were asked whether there were any "fatal flaws" or areas of significant concern in the impairment (expected credit loss "ECL")) requirements of IFRS 9 ("the requirements"). It was important that information produced under IFRS 9 was providing users with decision useful information.

13. Members observed that information provided under the requirements was useful. One member noted that the UK banks are much better at providing this information than some other jurisdictions. Members noted that the most used information presented in financial statements under the requirements were the various breakdowns of asset and ECL numbers (including Stage 1,2,3 disclosure). In addition to this basic information, investors were particularly interested in the breakdowns by product and geographic sector, the reconciliation showing movement of assets between the different stages, and information provided on Stage 2 assets. This information was often used for quantitative analysis.

14. The information provided on economic scenarios, sensitivities and management adjustments was more qualitative in nature and used to provide colour and context to the ECL information. It was important to know when a small change in assumptions could result in a large change in ECL, and it was good that management had structure and discipline regarding the ECL process. However, it is not always clear if or how such qualitative considerations have predictive value, and how they should affect valuation today. This information may be more useful

in future when a trend over time, rather than just a current snapshot, can be monitored.

15. Investors would be potentially interested in a further split of ECL data by industry sector. For example, if they were forecasting a downturn in a particular sector (e.g., construction) it is usually not apparent how much of the asset and ECL values relate to that sector.

16. Other disadvantages of the requirements noted in the discussion included:

    a) It could be difficult to compare relative quality of loan books between different organisations, due to different assumptions used in modelling. But there was no obvious accounting standard solution to this issue.

    b) If provisions were allowed to become too conservative/excessive it was difficult to assess management performance, as release of large buffers smoothed things out. It was noted this was also true prior to the implementation of IFRS 9.

    c) For low loss environments or products the disclosure appears excessive and the ECL number is not meaningful.

    d) The information can be misunderstood by those not knowledgeable about the requirements, for example instances of the mainstream media reporting stressed scenarios as likely predictions.

17. The members were asked if there was any information that was not used, or that preparers could stop providing. Members were reminded that while some of the information disclosed was also provided to regulators, there was usually further work required to produce information which is appropriate and understandable for use in general purpose financial statements. Members identified no such information and noted that analysts may be concerned if information was removed.

18. It was noted the requirements had not yet been implemented by many insurers, but such assets were often held at fair value in insurance entities.

19. Overall, IAG members felt the IFRS 9 impairment requirements had no fatal flaws or other serious issues.

IAS 12 Amendments

International Tax Reform: Pillar Two

20. The IAG considered a presentation on the IASB's proposed amendments to IAS 12 *Income Taxes*. The amendment proposes an exception from deferred tax accounting in respect of Pillar Two top-up taxes; to require companies to disclose any Pillar Two current tax separately; and, in the period between the tax being enacted and being effective, a series of disclosures on the entity's exposure to Pillar Two taxes.

21. The key points were:

    a) Members did not express concerns about an exception from deferred tax accounting for Pillar Two taxes. In the light of the concerns around cost, complexity and potential diversity in practice, a mandatory temporary exception appeared a sensible solution.

    b) Several members also noted that a breakdown of top-up tax by geography would be very helpful, and such a requirement would be in line with future requirements to report tax on a geographical basis.

    c) An aggregated disclosure was not as helpful as information on those jurisdictions where the group would be required to pay top up tax.

22. In summary, investors were seeking to understand whether the profit figure would change because of the impact of Pillar Two, and a jurisdiction-by-jurisdiction analysis would seem to provide the most useful information.

Supplier Finance Arrangements

Expected amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*

23. The IAG was provided with the status of the expected amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, aimed to increase transparency on an entity's use of supplier finance arrangements.

24. It was noted that in accordance with its statutory function, once the final amendments are published, the UKEB will carry out endorsement work to assess whether they are adopted for use by UK entities.

25. The objective for the session was to gather IAG members' views specifically about the IASB proposal

    '*An entity will be required to disclose, as at the beginning and end of the reporting period, the carrying amount of financial liabilities recognised in the entity's* *balance sheet that are part of Supplier Finance Arrangements, for which suppliers have already received payment from the finance providers*'.

26. This disclosure requirement was one of the areas where the UKEB letter2 to the IASB expressed concerns and recommended to the IASB to carry out further work before finalising the amendments.

27. The IAG was asked the relevance of the above disclosure requirement, its use in practice and whether could the same outcome be achieved using alternative information.

28. The key points were:

    a) Supplier finance programmes can be good finance facilities, but users need more transparency about the extent of their use and potential risks. This is even more relevant in the current economic situation (i.e. high inflation, high interest rates, supply chain issues), which might result in increased usage of these programmes.

    b) The carrying amount of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from finance providers, is very important information for users of accounts, as it helps them assess the overall amount of an entity's debt.

    c) This disclosure is particularly important when entities are in financial distress, facing liquidity issues and there is a risk the programme could be withdrawn by the finance provider.

    d) It was noted there may be legal implications and entities might need to renegotiate contracts, which might take some time. There might also be some challenges on the auditability of the information.

    e) One IAG member noted he is aware of one finance provider already providing entities with access to information about amounts already paid to suppliers.

    f) There were concerns about requiring the above disclosure only at the beginning and end of the reporting period. Users are potentially interested in their average amount and changes during the year.

    g) Entities reporting under U.S. GAAP will soon start providing disclosures on supplier finance arrangements, and users of accounts will be monitoring those. However, it was highlighted that unlike the IASB, the FASB considered but decided not to require that an entity disclose the carrying

[2] Refer to UKEB Final Comment Letter, paragraph A6(d) here.

amount of the financial liability that the finance provider had paid to the supplier.

Horizon Scanning

Sustainability Disclosure Standards

29. A member enquired if the endorsement of the ISSB Sustainability Disclosure Standards were within the UKEB's remit. It was noted that BEIS had asked the UKEB to provide input on their connectivity with Accounting Standards and that the Government had yet to decide on how the UK would endorse ISSB Standards.

30. UKEB Secretariat advised that they had prepared a paper on potential connectivity issues, which was discussed at the January 2023 meeting of the International Forum of Accounting Standards Setters (IFASS). As the majority of the national accounting standards setters had considered the topic to be important, the UKEB team will establish a UKEB Sustainability Working Group.

31. It was noted that there appeared to be a common disconnect between narrative disclosures in annual reports regarding a company's intentions to addressing climate-related risks and the underlying assumptions in the financial statements.

AOB

Liaison with the London Stock Exchange (LSE)

32. A member suggested that the LSE could be considered for informal membership of the IAG as it represented a wide range of investor interests. It was noted that the UKEB would need to consider any changes to the membership of the IAG.

Equity method query

33. The UKEB Secretariat asked the IAG for comments on a disclosure aspect relating to the gain or loss arising from transactions between investor and associates, currently being considered by the IASB as part of the Equity Method project.

34. Members did not have substantive comments on the specific disclosure. The UKEB Chair observed that transactions arising from this disclosure are likely to be less prevalent in the UK.

IFRS Foundation Capital Markets Advisory Committee (CMAC).

35. It was noted the IFRS Foundation CMAC was seeking members for a three-year term, from 1st January. Members were encouraged to consider applying.

The Chair closed the meeting at 17.00.

36. Next meeting 13 June, 13:00 – 17:00, BEIS Conference Centre, 1 Victoria Street, London.