Minutes of UKEB's Preparer Advisory Group (PAG) meeting held on 12 June 2023 from 1.30pm to 5.15pm

Agenda Item No.	Agenda Item
	Introduction and objectives of the meeting
1.	Influencing: IASB/ISSB Connectivity - Annual Report Analysis - ISSB Request for Information (RFI) – Draft Comment letter (DCL)
2.	Influencing: Amendments to the Classification and Measurement of Financial Instruments Exposure Draft (ED)
3.	Endorsement: Amendments to IAS 12 – International Tax Reform: Pillar Two Model Rules
4.	Influencing: PIR - IFRS 15 Revenue from Contracts with Customers
5.	Inter-meeting feedback requested from PAG members
6.	Horizon scanning
7.	A.O.B.

Present	
Name	**Designation**
Giles Mullins	Chair, PAG
Pauline Wallace	Chair, UKEB
Seema Jamil-O'Neill	Technical Director, UKEB
Ben Binnington	PAG member
Cat Hoad	PAG member
Chris Buckley	PAG member
Ian Melling	PAG member
Jo Clube (Agenda item 2 onwards)	PAG member
Luke Kelly	PAG member
Oliver Hexter	PAG member
Peter Leadbetter	PAG member
Stephen Morris	PAG member
Toby Odell	PAG member

Relevant UKEB secretariat team members were also present and IASB staff working on the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* agenda item.

Meeting Minutes

Welcome and Introduction

1. The Chair welcomed the Preparer Advisory Group (PAG) members.

Influencing: IASB/ISSB Connectivity

Annual Report Analysis

2. Members were asked to consider examples of potential inconsistencies that may lead to connectivity gaps identified from an illustrative sample of 9 FTSE 2022 Annual Reports; the extent to which the introduction of S1 and S2 may address any current gaps; and who was best placed to address any remaining disconnects.

3. The Secretariat clarified that the examples used were intended to illustrate some of the current connectivity challenges from a user's perspective based on information available to the market. The sample was not intended to be representative of the current landscape or to pass judgement over reporting by individual companies.

4. Overall, the members considered the illustrative examples to be a reasonable basis for enquiry into disclosures of material climate-related risks and the potential questions from an informed investor on the related disclosures in the financial statements.

5. Members observed: the difficulty in achieving an appropriate balance between applying materiality, cutting clutter to ensure relevant information in the financial statements, and meeting various user perceptions. Members suggested that initially some level of over-disclosure may be required until the point where climate-related risks are recognised to be within the scope of accounting disclosures.

6. Members acknowledged that there were many challenges for investors to reconcile from the front and back halves of the Annual Report. A member noted some preparers were hesitant with disclosure of climate-related matters in the financial statements due to the high level of uncertainty regarding the potential solutions that may help companies achieve net zero targets. It was observed that some stakeholders could consider some sustainability disclosures were 'smoking guns' and assume that they would result in direct financial statement impact.

7. A member noted a concern that the level of detail required in the ISSB Standards was likely to result in a significant increase in the disclosures in the annual

reports. For example, disclosure of the climate related projects under the sustainability reporting regime may raise stakeholder expectations for additional disclosures in the financial statements. This created a risk that entities either make fewer sustainability disclosures or end up obfuscating the key messages in the financial statements.

8. A member noted that during the Covid pandemic many entities had made disclosures regarding resilience as it was considered material at the time. Another member noted a similar situation regarding the Ukraine conflict and that auditors were likely to make challenge if reasonable estimates could not be identified. Therefore, certain perspectives on the climate related risks mean that a similar materiality lens may be applied.

9. Another member noted that there was significant debate around intent and that some of the push for disclosures in the financial statements may be driven more by regulator risk than the standards. As a result, clarity regarding the boundary of IASB and ISSB standards was critical to assist preparers, auditors, and regulators.

10. A member considered that there was a significant disconnect between IAS 36 *Impairment of Assets* and consideration of long-term forecasts. The member commented that their regulator had challenged why long-term sustainability assumptions has not been included in the impairment analysis, but they were unable to do so due to the constrains within the IAS 36 requirements.

11. Members also highlighted the need for increased stakeholder awareness of the differing drivers for sustainability reporting and financial reporting. Another member noted that the longer time horizons considered for sustainability reporting could not be reflected in the financial statements, making application of the concept of materiality difficult. For example, there would be little value in disclosing details regarding information excluded from the financial statements as references to radical untested climate-related technological solution or potential government policy transformation were unlikely to be certain enough to factor into the assets and liabilities recognised on the balance sheet.

12. However, users are not applying a similar approach to that for financial statement disclosures, where they could assume that if an item wasn't disclosed it would have been due to being considered immaterial and that management decision would have been challenged by the independent auditor.

13. Another member observed that with sustainability related matters, some users had assumed that if a company had not mentioned it in the financial statements, then it had failed to consider it. It was considered that the financial statements should be able to stand alone and that the sustainability disclosures may need to highlight material items that were not reflected in the financial statements.

14. Members highlighted a lack of clarity regarding the boundary between the IASB and ISSB the standards, where an impact was considered material for sustainability purposes but not necessarily for financial statement disclosures.

15. A member noted the potential risk in practice of either consciously or unconsciously creating a second level of 'sustainable materiality'. In the worst cases, this could create significant disconnects in the Annual Report. An example was provided of the disclosure of a potentially material sustainability event in 2040 however, when the impact is discounted to present value it may be considered immaterial from a financial statement perspective and therefore not disclosed. It was imperative to explain why an item could be considered material in one category but immaterial in the other.

16. A member noted that a climate-related event in medium or long term could still be material for the financial statements, but that it was difficult to determine when the estimated impact was within a broad range of potential outcomes that merited recognition or disclosure in the financial statements.

17. In summary, members agreed that:

    a) additional information and clarification on the differences in time horizons applied for sustainability and financial reporting purposes from both Boards was necessary to manage user expectations;

    b) guidance on the definition and application of materiality would be welcome from both the ISSB and the IASB;

    c) the IAS 36 gateway criteria when conducting impairment tests (and other similar gates throughout financial reporting) need to be considered during consideration of standard setting on climate related risks by the IASB; and

    d) the ISSB may wish to consider replicating the gateway approach as used in accounting standards for sustainability disclosures.

ISSB Request for Information – UKEB Draft Comment Letter

18. The Secretariat introduced the ISSB's Request for Information (RfI) on its priorities for the next two years. The group feedback was requested as part of the UKEB development of its Draft Comment Letter (DCL) to the ISSB.

19. On the strategic direction and balance of the ISSB's activities members views were:

    a) There was unanimous view that the ISSB should be focusing on 'supporting the implementation of ISSB Standards S1 and S2'. Members had no interest in any of the other items listed.

    b) Members noted the importance of connectivity between the IASB and ISSB, and that this did not yet appear to be as comprehensive as they had hoped.

    c) Members also discussed was the difference between mandatory and voluntary standards, the importance of a joint framework and the need for preparers and users to understand the role of materiality across both sets of standards.

d) Members also noted that the implementation of these new ISSB Standards was likely to be time consuming, complex and resource intensive. As a result, they considered that the next couple of years will need to be focused on implementation.

20. On the criteria for assessing the matters to prioritise and add to the ISSB's workplan.

a) It was suggested that stakeholder ability to engage with new standards should be added as a criterion.

b) Members were concerned that the matters added to the work plan appeared to focus more on the ISSB's preference rather than overall stakeholder needs. Members' preference would be that the ISSB follows the IASB's lead in engaging with stakeholders in the market to understand their needs. Another member said that they did not feel like a stakeholder of the ISSB, as there had been so little pro-active direct outreach by the ISSB with individual companies likely to be actually applying their standards.

21. On research the Secretariat noted that this was not an area that the UKEB intended to address in detail as part of its response to the ISSB.

a) Members noted that implementation of S1 and S2 should be a priority over new research.

b) While there was support for the ISSB focusing on connectivity, Integrated Reporting was not considered to be the appropriate mechanism through which this was achieved.

22. The Secretariat explained that the UKEB's draft response would be published on 23 June 2023 with a 30-day comment period, and they would appreciate any feedback members had.

Influencing: Amendments to the Classification and Measurement of Financial Instruments Exposure Draft

23. The Secretariat introduced the exposure draft (ED) *Amendments to the Classification and Measurement of Financial Instruments*.

Derecognition of Financial Liabilities settled with cash using electronic payment systems

24. Members noted that, where material, they mostly used settlement date accounting at period end. There was some diversity in practice as to how this was achieved.

25. The Secretariat asked the PAG members the methods of electronic cash transfer used. The discussion included the following points:

    a) Most PAG members used BACS for cash transfers, with some using Faster Payments.

    b) In the UK cheques are still used but are only material in certain industries. It was noted cheques were more prevalent in the United States.

    c) Around half of the PAG members also used Direct Debits (DDs) and standing orders. Views differed on whether these were material in total.

    d) PAG members considered that credit (or purchase) cards were widely used but not cumulatively material. Google Pay and Apple Pay could be used in place of all corporate credit cards.

    e) CHAPS and debit cards were not widely used.

26. The Secretariat asked whether PAG members used the short cancellation period available for BACS transfers and SWIFT transfers. The discussion included the following points:

    a) It was rare to cancel a BACS run. It was usual to pay the run and resolve the error subsequently, as it was impractical to jeopardise the run for one payment. Cancellation was not an effective use of resources as it would affect all other suppliers due to be paid in that run as well as staff time to reperform the run.

    b) SWIFT is international, so the ability to cancel would depend on the destination jurisdiction and bank. Timing can be affected by time zone differences, and different public holiday dates in different jurisdictions.

27. When asked whether payments via different methods can fail due to a lack of funds, PAG members observed that BACS payments and DDs can fail. Faster Payments cannot, though there was uncertainty as to whether this was true for a forward dated Faster Payment.

28. PAG members did not believe they would adopt the proposed alternative to settlement date accounting described in the ED in their business.

Lending with environmental, social and governance (ESG)-linked features

29. The Secretariat asked members their experiences of borrowings with ESG-linked features. One member had such borrowings and noted ESG targets were set in each borrowing subsidiary as this was consistent with their business model.

Endorsement: Amendments to IAS 12 – International Tax Reform: Pillar Two Model Rules

30. The Secretariat outlined how the *International Tax Reform: Pillar Two Model Rules* (Amendments to IAS 12) (the Amendments) had developed from the Exposure Draft ED/2023/1 *International Tax Reform–Pillar Two Model Rules*.

31. PAG members welcomed the Amendments, their timely issuance, and the speed of the endorsement process. Some considered that the costs of accounting for deferred tax in relation to Pillar Two outweighed the costs of providing the disclosures required by the Amendments; others thought it impracticable to account for deferred tax in relation to Pillar Two top-up taxes, and therefore the Amendments were required regardless of costs.

32. PAG members agreed that rapid endorsement was necessary to avoid accounting for deferred tax in relation to Pillar Two top-up taxes in June 2023 interim accounts.

33. PAG members welcomed the flexibility of the requirements. However, owing to the complexity of the rules, tax teams were still assessing groups' exposure to Pillar Two top-up taxes. At this point, the PAG members felt it was too early to know the information that would be disclosed under the Amendments. They considered it preferable for groups to assess their exposure to Pillar Two top-up taxes, rather than to disclose that they did not have known or reasonably estimable information available to do so.

34. One PAG member considered that the lack of clarity on whether all Pillar Two top-up taxes were income taxes would lead to practical difficulties when accounting for top-up taxes.

35. PAG members thought that the IASB should be considering the longer-term solution for accounting for top-up taxes as well as monitoring the progress of the Pillar One rules.

Influencing: PIR - IFRS 15 *Revenue from Contracts with Customers*

Post-Implementation Review

36. IASB project staff for the Post implementation review (PIR) of IFRS 15 presented to the PAG members, setting out the objective of the PIR, the timeline and how it would respond to comments, by prioritising issues. The IASB team shared the feedback they had received during Phase 1 of the PIR, which had commenced in September 2022, and the topics the IASB would focus on in Phase 2, as part of the upcoming Request for Information (Rfi)[1].

37. The Secretariat thanked the members who had already provided feedback on IFRS 15 at the 28 March 2023 PAG meeting. This was the opportunity to provide feedback on three specific areas: the five-step revenue recognition model, principal versus agent considerations, licencing and any other matters.

Five-step revenue recognition model

38. One member commented that the five-step model provides a logical sequence to follow and its substantial convergence with US GAAP is helpful.

39. Another member commented that it had been challenging applying the model to complex, long-term, developmental projects, particularly in identifying the point at which control transfers to the customer, which requires significant judgement.

40. Another member commented on the fact that due to significant judgement, the standard is open to interpretation and there continues to be debates with existing auditors. A further challenge potentially presents itself on audit rotation, due to differing interpretations of the standard amongst audit firms and with current practices adopted, companies do not ideally want to revisit their judgements.

Principal versus Agent

41. The feedback received at the previous meeting was that Principal versus agent considerations were challenging due to lack of indicators of a principal relating to intangibles, such as media content (i.e., inventory risk did not apply), and to apply the guidance involved significant judgement. One member reinforced this point, commenting that that the guidance/indicators worked were more aligned to traditional industrial transfer of physical goods, but that business models had evolved, to more technology-based, and therefore the indicators provided were not relevant to the new world. It was suggested that more illustrative guidance would be useful when dealing with virtual content and the member commented that a meeting had been arranged directly with the IASB to discuss such feedback.

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[1] The Request for Information Post-implementation Review IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 29 June with a closing day for comments of 27 October 2023.

42. Another member noted that the basis for conclusions in the standard was not clear when looking at principal versus agent considerations and accounting for revenue gross vs. net. Guidance around stand-alone selling price (SSP) had been difficult to apply. An example was provided where an airline business had high volume transactions with agents selling airline tickets globally, but there was no visibility of sales prices charged by the agents and therefore no observable stand-alone selling price, since the actual selling price the entity charged was not an appropriate reference point and therefore estimating the gross revenue could result in significant misstatement of revenue. A discussion with the IASB had apparently determined that this issue was not pervasive and no additional guidance was provided. The chair commented that this situation would likely apply to other sectors, such as travel and entertainment, where agents sell, hotel rooms for example, at discounted prices, with no visibility of that selling price to the hotel providing that room.

Licencing

43. One member noted that the guidance on licencing was useful, with the 'right to use' and 'right to access' definitions being clear.

44. Another member noted that the standard had been easy to navigate and understand when his entity acquired a business with complex licensing arrangements.

45. Another member noted that their entity had a material amount of software as a service (SaaS) contracts and that the May 2022 IFRIC agenda decision[2] was helpful.

46. One member commented that the standard was open to interpretation and that audit firms had interpretated the standard differently, with a specific reference being made to the interpretation of 'distinct' in identifying a performance obligation. It was noted that different interpretations of key parts of the five-step model was not helpful, and could have implications for company reporting on audit rotation.

47. One member commented that if any part of the guidance is amended, the effect of any change on other aspects of contracts with customers, such as expenses and prepayment needed to be considered.

Other matters

48. One member highlighted that implementation cost had not decreased, but rather the costs has become embedded by the requirement to continue to apply the standard. i.e., staff monitoring the stage of completion (using percentage to

[2] The Interpretations Committee issued an agenda decision in May 2022 Principal versus Agent: Software Reseller (IFRS 15 *Revenue from Contracts with Customers*)

completion method), including interpreting the point at which control transferred and calculating future costs. This varied depending upon the complexity of individual contracts. There was a lot more activity on estimating future costs on contracts than there had been under the previous revenue recognition standard.

49. To close the session the IASB project staff thanked the PAG members for their feedback and requested additional information about the diversity of interpretation among auditors to help establish fact patterns and details of the sectors where this was pervasive. They were also open to PAG members reaching out directly to talk to them informally.

Inter-meeting feedback requested from PAG members

Endorsement: Invitation to Comment: IAS 1 Presentation of Financial Statements – Narrow scope amendments (2020 & 2022)

50. The PAG Chair thanked members' feedback inter-meeting feedback on the Draft Endorsement Criteria Assessment (DECA) ahead of the consultation deadline (8 June 2023) and mentioned that it will be considered by the Board.

Horizon Scanning

51. The Chair opened the session and asked for member views on issues over the horizon.

Sustainability investments

52. A member highlighted that investing in sustainability projects has become more prevalent over the last quarter and whether it should be accounted for as capital expenditure or operating expenditure and the accounting treatment is driving decisions on whether to go ahead with sustainability projects. For example, rather than investing in established sustainability technologies, their entity would start a technology from scratch ('first mover response') and then get others to invest once it reaches critical mass. Under IAS 38 *Intangible Assets*, this would have been accounted for as Research & Development (R&D) and expensed through the Income Statement. Recognition of these 'early dawn' sustainability project costs on the balance sheet until a future point of assessing viability appeared a better reflection of the investments being made. Under IFRS 6 *Exploration for and Evaluation of Mineral Resources* expenditure is capitalised until the project is deemed commercial or otherwise, however an IFRIC decision had disallowed application of IFRS 6 to sustainability.

53. One member asked whether there needs to be a change in the rules to capitalise development costs on future savings.

54. Another member commented that the Transition Plan Taskforce (TPT) launched by HM Treasury in April 2022, which are due to publish an updated disclosure framework in Summer 2023 and the Financial Conduct Authority (FCA) are due to consult listing rules. Some companies had published Transition Plans (TPs) which tended to be vague, but there was a shift towards TPs being more definitive. This was becoming a rapidly accelerating problem with no guidance, for example there was no guidance on measuring the cost or value of the carbon offset. There were items which did not meet the definition of a liability but there would be considerable costs from meeting net zero targets.

55. Whilst one member suggested that allowing the spend to be capitalised on the balance sheet would help the integration/connectivity of the front and back half of the annual report, another suggested that R&D spend in the P&L could be a sign of corporate strength. A member gave an example of a seed fund - a large area of land with peat bog, tree planting and biodiversity, that others could invest in, how should it be accounted for?

56. The Secretariat advised that the IASB was expected to add a project on accounting for intangibles in the near future. The first UKEB intangibles report will be presented to IASB Accounting Standards Advisory Forum (ASAF) in July. Members were invited to provide any examples that may help the UKEB's understanding and research, and help the IASB define the scope of their intangibles project.

A.O.B.

IASB final amendments *Supplier Finance Arrangements*

57. The Secretariat informed that on 25 May 2023 the IASB published its final amendments *Supplier Finance Arrangements*.

58. The Secretariat aims to present a Draft Endorsement Criteria Assessment (ECA) at the July 2023 Board meeting, which subject to approval, will be published for public consultation with a 90-day comment period.

59. PAG members were encouraged to share their views on the UKEB's Draft ECA, when published.

Other matters

60. The Chair noted that the next meeting was scheduled to take place on Tuesday 31 October 2021.

61. There being no other business, the meeting closed at 17.10.