UKEB
UK Endorsement Board

Meeting summary of UKEB's Investor Advisory Group meeting, 26 February 2024

No.	Agenda Item
1.	Introduction and objectives
2.	Exposure Draft - Financial Instruments with Characteristics of Equity
3.	Exposure Draft – Business Combinations-Disclosures, Goodwill, and Impairment
4.	Connectivity
5.	Pollutant Pricing Mechanisms
6.	Exposure Draft - Power Purchase Agreements
7.	Horizon scanning
8.	A.O.B.

Present	
Name	**Designation**
Paul Lee	Chair, IAG
Christopher Bamberry	IAG member
Louise Dudley	IAG member
Alastair Drake	IAG member
Stanislav Varkalov	IAG member
Nicole Carter	IAG member
Tony Silverman	IAG member
James Vane-Tempest	IAG member
Tom Simmons	LSEG Observer
Nick Anderson	IASB Board member
Pauline Wallace	Chair, UKEB
Seema Jamil-O'Neill	Technical Director, UKEB

Relevant UKEB Secretariat and IASB technical team members were also present.

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Introduction

1. The Chair welcomed members to the meeting, particularly welcoming James Vane-Tempest to his first meeting, and introduced the representatives from the IASB, including IASB Board member, Nick Anderson.

Financial Instruments with Characteristics of Equity

2. The UKEB Secretariat introduced the recommendations within the UKEB draft comment letter on the IASB Exposure Draft *Financial Instruments with Characteristics of Equity* on the following topics: disclosures, including the disclosure of priority of instruments on liquidation, obligations to redeem own equity, reclassification, the fixed-for-fixed condition, and transition. The Secretariat invited comments from members.

3. Members would welcome information on the priority of instruments on liquidation. However, they considered that the level of detail required for that information to not be misleading exceeded that which could be provided within the financial statements, on grounds of complexity and commercial sensitivity.

4. A member explained that the proposed requirements on the fixed-for-fixed condition could affect instruments in which a fixed amount of shares was exchanged for a fixed amount of cash denominated in a currency other than the entity's functional currency. These were currently widely considered to meet the fixed-for-fixed condition, and therefore required equity classification. If, because of these proposals, such instruments were reclassified as financial liabilities, hedge accounting could be applied to foreign currency risk.

5. Support was expressed for the proposed presentation requirements as they would increase the visibility of different classes of equity.

Business Combinations-Disclosures, Goodwill, and Impairment

6. The UKEB Secretariat introduced the IASB's tentative decisions that were expected to be included in the Exposure Draft (ED), subsequently published in March 2024. The discussion focused on the proposed amendments to the disclosure requirements in IFRS 3 *Business Combinations* and proposed changes to the impairment test in IAS 36 *Impairment of Assets.* The Secretariat invited comments from members.

7. Overall, support was expressed for the IASB proposals to improve the information that entities provide to users about business combinations. Members welcomed the proposed new disclosure objectives and additional disclosure requirements[1]. Members considered the two-year minimum disclosure period to be fair, if

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[1] The proposed new requirements in IFRS 3 include some disclosures for all material business combinations, such as quantitative information on expected synergies, and other disclosures for only a subset of 'strategically important' business combinations, such as management's key objectives, metrics, and targets in the year of acquisition the subsequent performance against those acquisition-date metrics and targets for as long as management is monitoring.

management stops monitoring against acquisition-date metrics, noting that integration often happens in a much shorter period.

8. From the discussion, it will be important for the ED to clarify that acquisition-date metrics and targets may be for a combined business unit, if the plan is to integrate the acquired business soon after acquisition.

9. There were mixed views on the IASB's proposed exemption[2]:

    a) one member noted it was important to have an exemption to allow companies to make judgements, but

    b) another member expressed concern that the proposed application guidance for the exemption, when applied to the new requirement for quantitative information on expected synergies in the year of acquisition for all material business combinations, could lead to a loss of transparency. They noted that if an entity aggregated categories of expected synergies there would be loss of transparency between potentially optimistic revenue synergies and the usually more precise cost-saving synergies.

10. In relation to the IASB's tentative decision not to define 'synergies', one member agreed on the basis that it was important to have insight of the company-specific view of synergies. However, another member questioned the IASB's application of 'synergy' for cost-savings, noting that cost-savings and other synergies, such as revenue synergies, should remain distinct.

11. The discussion highlighted that it will be important for the IASB to clarify how a company might distinguish, for a 'strategically important' business combination, between the quantitative expected synergies and management's key objectives, metrics, and targets.

12. One member noted that information on a series of 'strategically important' acquisitions is needed by users, to enable them to assess the performance of management and stewardship, where a sole acquisition may not meet the definition. Another member commented that all business combinations should be strategically important. Therefore, it may be important that application guidance be clear that the principle[3] for identifying a 'strategically important' business combination, should be applied before considering any of the proposed thresholds.

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[2] An entity may be exempted from disclosing some information if doing so 'can be expected to prejudice seriously an entity's objective for a business combination'. An entity would be required to disclose the reason for applying the exemption for each item of information, reassess in future periods whether the exemptions should still be applied, consider when it is appropriate to use the exemption e.g. inappropriate if that information was already disclosed in other publicly available material and consider disclosing information at a sufficiently aggregated level that would resolve concerns, so that the exemption is not applied, but the disclosure objectives are met..

[3] A strategically important business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

13. In relation to the IASB's decision to not reintroduce amortisation, to retain the requirement for an annual impairment test for cash-generating units (CGUs) containing goodwill, and the proposed simplifications to the value in use calculation, members did not express any specific concerns.

14. Members welcomed the IASB's proposals, to require an entity to disclose the operating segment any CGU containing goodwill is reported. However, two members noted that companies can still avoid recognising impairment losses by pooling CGUs or redefining operating segments, so application guidance on the disclosure requirements of any such changes will be important.

15. One member noted that they found it useful that some companies voluntarily disclose how much headroom (excess of recoverable amount over carrying value) there is in each CGU, giving greater transparency as to how close a CGU is to requiring impairment.

Connectivity

16. The UKEB Secretariat provided a brief update from the IASB and ISSB joint board meeting which was held on 25 January 2024. The joint board considered stakeholder feedback from the ISSB Agenda Consultation regarding a potential research project on 'integration in reporting' and stakeholder perspectives on connectivity between ISSB and IASB standards, where appropriate.

17. The joint meeting noted that while integration in reporting was important to stakeholders, they considered other areas of higher importance for the initial two-year work plan. The meeting also noted the importance of the boards connecting and of ensuring these activities were made transparent to stakeholders.

18. A member enquired as to the level of engagement between the two boards. The IASB board member advised that the boards consider working together in a connected way to be business as usual.

19. The UKEB Secretariat also provided a brief update of recent IFRIC advice on the application of IAS 36 *Impairment of Assets* and the Tentative Agenda Decision regarding Climate-related Commitments (IAS 37). In both cases IFRIC reached the conclusion that no changes or further action was required from the IASB.

20. The members were advised that the UKEB intended to prepare a letter to the IASB regarding its current approach to climate-related matters and users connectivity needs between sustainability disclosures and the financial statements.

Pollutant Pricing Mechanisms

21. The UKEB Secretariat introduced the topic of pollutant pricing mechanisms (PPMs), which is currently on the IASB reserve list. The members were advised that the IASB was currently seeking views from National Standard Setters on whether the project should be prioritised. The Secretariat invited members' views.

22. A member drew the distinction between compliance schemes and voluntary schemes. Observing that the latter schemes were not usually regulated and that issues such as additionality, carbon leakage, uncertainty of permanence and double counting, had been observed. However, the member also noted that some diversity in measurement may be necessary, as measuring PPMs held for trading at fair value and measuring those held for the entity's own use at cost should be aligned to the entities' rationale for holding them.

23. Another member observed that prioritising a PPM project was consistent with the wider focus within standard-setting for sustainability and that this project could potentially be incorporated within a broader IASB project on Intangibles.

24. It was observed that diversity in practice in classification could also result in diversity in presentation within the cash flow statement. Members noted that if entities did not present disaggregated information, users could not adjust for the items without requiring further information.

Power Purchase Agreements

25. The UKEB Secretariat introduced the IASB project 'Power Purchase Agreements'. It proposes amending IFRS 9 *Financial Instruments* to overcome current accounting challenges in applying the own use exemption and hedge accounting to power purchase agreements (PPAs) for renewable energy. An Exposure Draft is expected in May 2024.

26. Members welcomed this project. One member noted that a link to inflation was common within PPAs in the UK, which added accounting complexity. That member observed that in some other jurisdictions, as electricity can only be bought at spot price, entities can only enter into virtual PPAs, not physical ones.

Horizon scanning

27. The Chair invited members to discuss any current or emerging concerns.

28. A member commented on the importance of the potential IASB project on cashflows statements and that users of accounts were keen to see this mobilised. It was noted that the IASB were aware of divergence in practice and intended to start a project on cashflow statements in the near term.

29. A member enquired which information currently outside the financial statements and unaudited was in scope of the *IFRS 18 Presentation and Disclosure in Financial Statements* project. It was noted that the scope of this project would cover key management measures and performance metrics.

30. A member noted inconsistencies in the presentation, measurement and disclosure of research and development costs. It was noted that the IASB may activate an Intangibles project 2024 which may include research and development. It was also noted that the UKEB would shortly publish a research report into intangibles which may contribute to the scope of the IASB project.

31. A member raised significant concerns with the IASB Rate Regulated Activities project approach and considered that the current approach of excluding the effects of inflation would not suit UK rate regulated entities. It was noted that the UKEB was developing an alternative top-down approach for discussion at UKEB March 2024 meeting. This would then be discussed with the IASB to highlight UK stakeholder concerns.

A.O.B.

32. The UKEB Secretariat that a request for feedback on a draft survey is to be shared with the IAG for comment. The survey is designed to obtain views from users on the impact of the main requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*. The IASB expects to publish IFRS 18 in April 2024.

33. The next meeting will take place on Monday 10 June, 13:00 – 17:00, 2024.

END OF MEETING