UKEB
UK Endorsement Board

Summary of the Financial Instruments Working Group meeting held on 23 April 2024 from 2pm to 5pm

Meeting agenda

Item no.	Item
1	Welcome
2	Technical discussion: *Power Purchase Agreements*
3	Technical discussion: *Post-implementation Review of IFRS 9 - Impairment*
4	Horizon scanning
5	IASB/UKEB presentation: IFRS 18 *Presentation and Disclosure in Financial Statements*
6	Any other business

Attendees

Present	
Name	**Designation**
Peter Drummond	Chair, Financial Instruments Working Group (FIWG)
Alan Chapman	FIWG member
Brendan van der Hoek	FIWG member
Conrad Dixon	FIWG member
Fabio Fabiani	FIWG member
Helen Shaw	FIWG member (by dial-in)

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Kumar Dasgupta	FIWG member
Mark Randall	FIWG member
Mark Spencer	FIWG member (by dial-in)
Richard Crooks	FIWG member
Robbert Labuschagne	FIWG member
Stacey Howard	FIWG member
Ian Mitchell	Observer

In attendance	
Name	**Designation**
Anthony Clifford	Board member, UKEB (by dial-in)
Seema Jamil-O'Neill	Technical Director, UKEB
Nick Anderson	IASB member (fifth agenda item only *)

Apologies: Sarah Bacon (FIWG member).

* IASB project team members were also present for the fifth agenda item 'IASB/UKEB presentation: IFRS 18 *Presentation and Disclosure in Financial Statements'* only.

Relevant UKEB Secretariat team members were also present.

Welcome

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

Technical discussion – *Power Purchase Agreements*

2. The IASB has taken tentative decisions on the forthcoming Exposure Draft on *Power Purchase Agreements,* which is expected in May 2024. A brief introduction was provided summarising the latest updates from the IASB on the project, and views were sought from members on the tentative proposals.

'Own use' requirements

3. In the discussion of the IASB's tentative decision to amend the 'own use' requirements in relation to PPAs, the following points were made:

a) It did not appear appropriate to exclude entities that mitigated their exposure to volume risk from the scope of the amendments. However, it was unclear whether the proposals would enable fixed-volume renewable energy PPAs that currently fail the conditions to meet the 'own use' requirements by analogy. On scope, it was also noted that in some contracts production can be turned off, and these may not fall within the scope of these otherwise helpful proposals.

b) There was discussion of the example in the March 2024 IASB staff paper 3A paragraph 34. It was noted that the staff paper did not expressly state whether this example, where 60% of the power purchased in a day is sold, would meet 'own use' requirements, although some had assumed this. Members noted that it seemed wrong to penalise short term timing mismatches between supply and demand, although it was acknowledged that this was a difficult judgemental area. Some members considered that an entity which sold 60% of its electricity purchases back to the market in a specified period would not currently be considered to meet 'own use' requirements.

c) Mixed views were expressed on the proposed requirement that "*the entity expects to repurchase the sold volumes of renewable electricity within a reasonable time after the sale*". Some felt this was overly restrictive, while others felt this sensibly limited the exception to 'own use' situations. Situations discussed included those where production was unexpectedly high, e.g. from solar panels in a hot summer, or where for a specific reason an entity no longer expected to repurchase the volume in one time period. The need for an ongoing assessment of these conditions was noted, as was the one-way direction of this assessment. For example, if a 30-year contract became ineligible after breaching the 'own use' requirements in year 4, it could not subsequently become eligible even if there were no further breaches.

Hedge accounting requirements

4. In the discussion of the potential amendments to the hedge accounting requirements, the following points were made:

a) One member cautioned against amending the requirement for forecast transactions to be highly probable (IFRS 9 6.3.3), as it was fundamental to hedge accounting.

b) Several members considered that "*the hedged item and hedging instrument are measured using the same volume assumptions, but other assumptions such as the pricing structure reflect the nature of the hedged item as renewable electricity*" should not be a condition for hedge accounting. It was felt that this was closer to a measurement requirement.

c) It was noted that the example at the end of the March 2024 IASB staff paper 3B uses a time period of one year. It was felt this was longer than would typically be permitted in other hedging arrangements and could create complications if a one-year period straddled a reporting date. It was acknowledged that a one-year time period might address challenges arising from seasonal supply, but could lead to practical difficulties with regard to recycling and, potentially, ineffectiveness. Shorter time periods could also give rise to difficulties, however, e.g. if a factory shut down in August, leading to low power consumption.

Disclosures

5. In the discussion of proposed disclosure requirements, the following points were made:

   a) It was considered unclear whether the requirement to disclose the net volume of renewable electricity purchased meant the volume purchased from the renewable electricity supplier only, and whether the net volume included electricity sold back to the market.

   b) Some members considered that although the disclosures did require commercially sensitive information, these were a trade-off for applying 'own use' accounting where previously an entity would have been required to account for a contract as a derivative. It was felt possible to measure the fair value of these contracts.

   c) Other members thought a proportionate approach was required. These requirements were more onerous than those for other non-financial contracts. However, users may welcome information on long-term exposures, particularly if contracts are material or price-sensitive.

Technical discussion – *Post-implementation Review of IFRS 9 - Impairment*

6. The UKEB Secretariat explained this was intended to be a brief agenda item, to reflect on the tentative decisions made by the IASB to date on the Post-implementation Review of IFRS 9 – Impairment project. Links to summaries of the tentative decisions in published IASB staff papers and UKEB board papers had been provided to members. The IASB's work on this project is ongoing.

7. In the ensuing discussion the following points were made:

   a) Some members expressed disappointment that the issues associated with intra-group lending had not been progressed further. Other members did not agree that intra-group lending should be treated differently, or observed that some of the challenges associated with intra–group lending, such as the lack of loss history data, made significant change difficult.

b) Some members observed that in relation to 'significant increase in credit risk' (SICR), and associated disclosures, the UK's Taskforce on Disclosure about Expected Credit Losses (DECL) had done a lot of work which could be helpful to an international financial services audience. However, such a detailed disclosure approach should not be imposed on corporates. Another member noted that not making any changes regarding collective SICR was sensible given the number and variety of underlying model and risk factors, and that post-model adjustments can reasonably compensate for this.

c) Some members felt more could have been done on the issue of non-linearity. While the guidance produced by the IFRS Transition Resource Group (ITG) is helpful on this matter, it is not always clear how it should be applied, and not all preparers may be aware of the separately documented ITG views. Other members thought this decision should be seen in context of other priority projects competing for IASB resources, or commented that, while including such guidance in the standard may be helpful, it may only benefit a few jurisdictions. They therefore understood why the IASB decided not to progress the matter further.

d) Overall, FIWG members confirmed there were no significant concerns with the tentative decisions taken to date, and no expectation that the UKEB would need to take any action.

Horizon scanning

8. Due to time constraints, this agenda item was deferred to the next FIWG meeting.

IASB/UKEB presentation: IFRS 18 *Presentation and Disclosure in Financial Statements*

9. The IASB project team gave a presentation on the main requirements of IFRS 18 *Presentation and Disclosure in Financial Statements* which will replace IAS 1 *Presentation of Financial Statements*. IFRS 18 was issued in April 2024 and applies to annual reporting periods beginning on or after 1 January 2027.

10. The IASB presentation covered the following four main topics within IFRS 18:

a) Categories and subtotals;

b) Management-defined performance measures (MPMs);

c) Aggregation and disaggregation; and

d) Limited changes to the statement of cash flows.

11. The UKEB Secretariat asked FIWG members to provide feedback on the requirements in IFRS 18, including any costs and benefits from the application of

these requirements, to help the UKEB gather evidence for the endorsement assessment of IFRS 18.

12. FIWG members were generally supportive of the requirements in IFRS 18. During the session, FIWG members did not raise significant concerns or identify significant cost burdens in the future implementation of those requirements.

Categories and subtotals

13. FIWG member views were sought on the new requirements on categories and subtotals. In the ensuing discussion, the following points were made:

    a) Some members noted that the application of the accounting policy choice that is permitted for entities that provide financing to customers as a main business activity[1] would reduce comparability. For example, a bank, an insurance-banking conglomerate or a manufacturing entity that provides financing to customers could exercise this choice in different ways. However, some members considered that consistent practices may develop by entities in the same industry as IFRS 18 is implemented.

    b) The IASB team highlighted that some of the requirements in IFRS 18 aim to achieve consistency in the presentation of certain items in the income statement to eliminate current diversity in practice. For example, interest expense on a lease liability, or net interest expense (income) on a net defined benefit pension liability (asset)[2] are required to be classified in the financing category for all entities. The IASB team observed that this could be a potential area of change for entities that present these items as part of their core operations.

    c) The IASB team acknowledged that in some cases identifying whether an entity provides financing to customers as a main business activity may not be straightforward and may require the use of judgement (for example, in determining if a corporate's central treasury function provides financing to customers at a group or at an entity level).

    d) One member asked if IFRS 18 permits the presentation of additional subtotals such as 'operating profit before credit impairment losses' which is commonly presented by banks. The IASB team highlighted that the presentation of additional subtotals is permitted if these subtotals meet

[1] This accounting policy choice permits these entities to classify in 'operating' all income and expenses from liabilities that arise from transactions that involve only the raising of finance, or, only the portion related to providing financing to customers (the portion not related to providing financing to customers is classified in financing).

[2] This is derived from the requirement in IFRS 18 to classify in the financing category interest income and expenses (including the effects of changes in interest rates) that arise from transactions that do not involve only the raising of finance.

the requirements in IFRS 18. If the subtotals meet the definition of MPMs, entities are also required to follow the disclosure requirements for MPMs.

e) The IASB team highlighted that all entities will be required to classify income and expenses from investments in associates and joint ventures in the investing category. A few FIWG members noted that this requirement would have an impact on banks with investments in technology or emerging markets companies as they usually consider these investments to be part of their core operations. The IASB team highlighted that:

   i. An entity could choose to present an additional subtotal of 'operating profit and income and expenses from associates and joint ventures accounted for using the equity method' if doing so provides a useful structured summary.

   ii. An eligible entity could elect to measure an investment in an associate or joint venture at fair value through profit or loss[3] when it first applies IFRS 18.

f) One member noted that the requirement to classify foreign exchange differences in the same category as the income and expenses from the items that gave rise to these differences could be challenging to implement at the consolidated level due to constraints in accounting systems. The IASB clarified that IFRS 18 also permits entities to classify these effects in operating (as a default category) if undue cost or effort is involved.

Management-defined performance measures

14. FIWG member views were sought on the new requirements on management-defined performance measures.

15. A few members questioned whether entities would be permitted to insert cross references between Alternative Performance Measures (APMs) (included in the front half of the annual report) and MPMs (included within the financial statements). The IASB team observed that IFRS 18 is silent in this respect but noted that an entity could potentially choose to bring APMs into the MPM disclosure note as long as APMs are clearly labelled as such.

Aggregation and disaggregation

16. FIWG member views were sought on the new requirements on aggregation and disaggregation. In the ensuing discussion, the following points were highlighted:

[3] As specified in paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures*.

a) In response to some comments made by members the IASB team clarified some of the requirements for the disclosure of specified expenses by nature. It noted that:

i. The amounts disclosed may include not only amounts recognised as expenses in the income statement for the year but also amounts that have been capitalised as part of the carrying amount of an asset.

ii. The amounts disclosed are required to be the 'total' amounts for each specified expense by nature (e.g. total employee benefit cost incurred for the year) and be linked to individual functional line items in the operating category.

b) The IASB team highlighted that banks often disclose expenses by nature and therefore are not subject to the requirement to disclose specified items by nature included in each functional line item.

Limited changes to the statement of cash flows

17. FIWG member views were sought on the limited changes to the statement of cash flows. During the discussion it was noted that the IASB had not sought alignment between the categories in the statement of profit or loss and the activities in the statement of cash flows. The IASB team noted that this issue may be reconsidered in a future project.

Closing remarks

18. The Chair thanked FIWG members for their input and the IASB project team for their presentation and attendance.

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Amendments to the Classification and Measurement of Financial Instruments

19. In anticipation of the publication of *Amendments to the Classification and Measurement of Financial Instruments* next month, the Secretariat observed that several letters from UK stakeholders to the IASB in response to the exposure draft had expressed concern with the proposed requirements for the derecognition of liabilities settled through electronic transfers. Work to date suggests these concerns can be classified into three broad categories:

a) The use of settlement date for the derecognition of financial liabilities (including the lead time to make any necessary operational changes).

b) Use of the proposed option to derecognise before the settlement date (the option), including the operational challenges of the analysis required to determine which payments may qualify for the option.

c) Whether settlement date is appropriate for derivative instruments where, due to their nature, the recognition pattern follows contractual conditions rather than cash payments.

20. Members were asked if they were aware of any concerns with the expected amendments, or with the implementation date of 1 January 2026, that would pose significant challenges to the adoption of the amendments in the UK. Members were not aware of any such issues. Some members suggested that the analysis of payment systems to determine if they qualify for use of the option may be undertaken centrally by industry groups (or similar), which would ease the burden on individual organisations.

Next FIWG meeting

21. It was confirmed that the next FIWG meeting would be held on 16 July 2024.

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