UK Endorsement Board

Summary of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG) meeting held on 7 November 2024

Location: Virtual meeting

No.	Agenda Item
1	Welcome and introductions.
2	Influencing: Climate-related and Other Uncertainties in Financial Statements (CROUFS).
3	Influencing: Provisions – Targeted Improvements
4	Endorsement: IFRS 18 Presentation and Disclosure in Financial Statements.
5	Preparation for the Accounting Standards Advisory Forum (ASAF) meeting: • Amortised Cost Measurement. • Statement of Cashflows.
6	Horizon scanning.
7	A.O.B.

Present	
Name	**Designation**
Tony Clifford	UK Endorsement Board member and AFIAG Chair
Sandra Thompson	UK Endorsement Board member
Andrea Allocco	AFIAG member
Andrew Spooner	AFIAG member
Chris Smith	AFIAG member
Claire Needham	AFIAG member
Danielle Stewart OBE	AFIAG member
David Littleford	AFIAG member
James Barbour	AFIAG member
John Boulton	AFIAG member
Moses Serfaty	AFIAG member
Richard Moore	AFIAG member

Apologies: Sharon Machado

Relevant UKEB Secretariat team members were also present.

Welcome

1. The Chair welcomed members to the meeting and introduced the topics for discussion.

Influencing: *Climate-related and Other Uncertainties in Financial Statements* (CROUF)

2. The UKEB was seeking member views on the UKEB's Draft Comment Letter (DCL), published on 25 September 2024, in response to the IASB's ED *Climate-related and Other Uncertainties in the Financial Statements* (CROUFS).

3. It was noted that the UKEB intended to comment on the IASB's ED in the interest of ensuring connectivity and high-quality reporting. However, the UKEB would not be endorsing or adopting these illustrative examples (Examples), as they are not proposed to form a part of the mandatory IFRS Accounting Standards.

4. Members were asked for their views on the UKEB's draft position set out in the UKEB's DCL, which were generally supportive, but they noted several potential unintended consequences.

5. The UKEB DCL expressed concern that the ED potentially placed over-reliance on paragraph 31 of IAS 1 *Presentation of Financial Statements*, by reading the 'lack of material effect' into the wording of this paragraph, in a way that was not currently applied in practice.

6. Overall members were broadly supportive of the Examples and the IASB approach. However, in relation to the use of paragraph 31 of IAS 1 in Examples One and Two, members made the following points:

   a) Most members observed that paragraph 31 was rarely used in practice and that it was not obvious from the fact patterns in the Examples that the disclosure of a 'lack of effect' was required.

   b) Several members noted that paragraph 31 only required 'consideration' of disclosure and if the IASB required a 'lack of material effect' to be disclosed then standard setting should be considered.

   c) Concern was expressed with the implication that the understanding of the financial statements may be dependent on information in other general purpose financial reports.

   d) Several members suggested that examples One and Two could be improved if they included a rationale as to why paragraph 31 is applied (for example because the climate-related transition risks are specifically mentioned in the narrative reporting or other public documents).

   e) A member suggested that the IASB could avoid overreaching paragraph 31, and achieve the same outcome, by instead using IAS 36 *Impairment of Assets* paragraph 134 in relation to goodwill or indefinite lived intangibles in Example One.

   f) Including a cross reference to paragraphs 12 (c) and 112 (c) in IAS 1 was considered broadly helpful by members but would not solve the 'lack of material affect' disclosure issue.

7. The UKEB Secretariat advised that the IASB's Basis for Conclusions noted there may be challenges, in practice, with the application of paragraph 125 of IAS 1. The UKEB draft position was that, if this was the case, then additional disclosure requirements in the standards, rather than illustrative examples, may be required.

8. The members discussed this point and noted the following:

   a) A member had observed confusion in practice regarding the application of the time frame in paragraph 125 of IAS 1 in relation to key assumptions and goodwill impairment, but considered this could be addressed through application guidance.

b) Another member emphasised the importance of not blurring the boundaries of the financial statements and noted that longer term uncertainty disclosures may be more appropriate in the sustainability disclosures.

9. The Secretariat noted the additional connectivity illustrative examples presented at the September World Standard Setters Conference. Members considered the timing of the publication potentially problematic as they were not in scope of the ED, but considered them likely to be helpful.

10. A member considered that implications from entities' transition plans to Net Zero should also be considered by the IASB as this was a potential area of connectivity with the financial statements.

Influencing: *Provisions – Targeted Improvements*

11. The UKEB Secretariat provided an overview of proposals being developed by the IASB to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

12. As part of this project, the IASB is considering amendments:

a) To the definition of a liability and the requirements and guidance for applying the present obligation recognition criterion using concepts from the *Conceptual Framework for Financial Reporting*.

b) To indicate more clearly the rate an entity uses to discount a long-term provision to its present value.

c) To clarify which costs an entity must consider in measuring an obligation.

13. In the ensuing discussion, the following points were made:

a) Overall, it was noted that a detailed assessment of the precise language in the IASB's exposure draft is needed to form a view. Preliminary thoughts were shared at the meeting.

b) Although members considered that the change to the definition of liability would not, in itself, result in changes to current practice, some considered that the new definition in combination with the clarifications to the recognition criteria would improve the clarity of the requirements.

c) The precise wording for the proposals is needed to better understand the interaction between the Obligation and Past-event conditions. Clarity is also needed on what constitutes an 'action' for purposes of assessing obligations, such as bank levies.

d) Thorough testing of the IASB's proposals is needed to assess whether the proposed requirements can be applied consistently to different scenarios.

e) Members welcomed the proposed clarification on discount rates (i.e. risk-free rate with no adjustment for non-performance risk).

f) Members questioned aspects of the proposed clarifications on costs an entity is required to consider in measuring a provision. It was highlighted that there is a potential challenge as to the auditability of amounts, particularly those based on allocations. One member raised concerns about consistency and potential interaction with the requirements in other IFRS Accounting Standards, such as those on impairment tests.

g) One member questioned whether an exception for provisions was needed in relation to the fair value measurement principle in IFRS 3 *Business Combinations*.

14. The IASB is expected to publish an exposure draft proposing targeted improvements to IAS 37 in November 2024. The detailed wording in the exposure draft will be assessed to fully understand the potential impact of the proposals.

Endorsement: IFRS 18 *Presentation and Disclosure in Financial Statements*

15. The purpose of the session was to seek members' views on a preliminary summary of the survey feedback received by the UKEB on IFRS 18 *Presentation and Disclosure in Financial Statements* from UK preparers. This included an overview of feedback received on:

a) The main presentation and disclosure requirements in IFRS 18.

b) Any likely adoption costs and benefits derived from the application of the requirements in IFRS 18, as well as wider economic effects.

16. The Secretariat invited AFIAG members' views on this summary.

17. AFIAG members were generally supportive of the feedback received and did not express concern that any of the issues identified should be considered significant for endorsement purposes.

18. In the ensuing discussion, the following points were made.

General requirements on categories and subtotals

19. A few members noted that IFRS 18 would not entirely solve the issue of the lack of consistency of the information presented. However, this Standard could standardise the structure of the income statement and reduce the need to provide adjusted performance measures.

20. One member observed that some of the prescriptive requirements in IFRS 18 may lead to classifications that could be considered counterintuitive. For example, fees payable to a lender in respect of a revolving credit facility may be classified as operating costs (and not as financing costs) when applying the definitions in IFRS 18.

21. One member noted that some entities think the definition of 'investing' in IFRS18 is unclear and may find it difficult to determine if some of their income and expenses meet this definition.

Classification of income and expenses derived from investments in associates and joint ventures accounted for using the equity method

22. One member noted that mining companies commonly operate through joint ventures and account for these investments using the equity method. For those entities, it is common to include the income and expenses derived from equity-accounted investments as part of the entity's main business activities.

23. One member noted that it is likely that some preparers will be dissatisfied with having a requirement to classify income and expenses derived from investments in associates and joint ventures accounted for using the equity method in the investing category and no flexibility to classify these income and expenses in the operating category. However, another member observed that an entity could choose to add extra subtotals or include management-defined performance measures (MPMs) to indicate that some of their investments in joint ventures and associates are considered integral to the business.

Requirements on management-defined performance measures

24. One member noted that the definition of an MPM is not clear enough, which may lead entities to conclude that their alternative performance measures (APMs) do not meet this definition.

Requirements on aggregation and disaggregation

25. One member noted that significant judgement would be required to apply the principles of aggregation and disaggregation in IFRS 18 given that the Standard does not provide enough guidance in this respect.

Adoption costs and wider economic effects

26. One member observed that the assessment of costs and benefits and wider economic effects should also consider any potential improvements on the quality of the data provided by entities. An assessment of such effects would be influenced by:

    a) how data is consumed; and/or

b) how technology and/or artificial intelligence may interpret, reorder or aggregate information.

27. Another member observed that the approach taken by entities in implementing IFRS 18 will influence the level of costs that they will incur on adoption. For example, some entities may take a ‘simple compliance approach’; whereas others may take a ‘wider compliance approach’ looking for additional areas of improvement in the presentation and disclosure of their financial information, and thus may incur higher implementation costs.

Preparation for the Accounting Standards Advisory Forum (ASAF) meeting

Amortised Cost Measurement

28. At the September 2024 IASB meeting, the IASB staff presented a list of common application issues which had been identified for possible inclusion in the Amortised Cost Measurement project. The purpose of this session was to seek AFIAG members’ views on this list of issues and what items they considered to be the highest priority.

29. Priority items noted by members included:

a) The estimation of variable cash flows and whether changes in contractual cash flows would result in an adjustment to the effective interest rate (EIR) or an upfront gain or loss.

b) Determining the EIR for a floating rate instrument.

c) Modification, partial modification, and derecognition.

30. In the ensuing discussion, the following points were also made:

a) One member considered that the IASB staff initial list of issues mainly focused on financial assets but noted that there were also application challenges for financial liabilities e.g., those with contingent or variable cash flows where no embedded derivative has been accounted for separately.

b) Another member noted that prioritisation could differ depending on whether it was from the perspective of corporates (as they tend to have significant one-off transactions such as borrowings) or financial institutions (with significant levels of financial assets, impairments, modifications and the interactions between those).

Statement of Cashflows

31. The purpose of the session was to seek members’ views on:

a) The scope of the IASB research project *Statement of Cash Flows and Related Matters*.

b) Specific improvements that could be made to the Statement of Cash Flows.

c) Whether Financial Institutions require a different approach to cash flows.

32. In the ensuing discussion, the following points were made:

a) While there is agreement among members that an IASB project on the *Statement of Cash Flows and Related Matters* was welcome, there are a variety of views on how to address the issues. Members suggested it could be difficult to improve consistency and comparability while also enhancing the usefulness of the Statement of Cash Flows.

b) Members agreed that some of the issues identified are application issues resulting from a lack of understanding of the requirements in IAS 7 *Statement of Cash Flows*. This is exacerbated by the logistical challenges faced by some entities, arising from the preparation of the Statement of Cash Flows outside the mainstream business process of producing the other primary financial statements.

c) The importance of having a consistent and clear definition for working capital was also raised. It can be difficult in practice for users to recalculate reporting entities' working capital to derive the free cash flow available.

33. Regarding financial institutions, there was a view that the statement of cash flows is generally of very limited utility. However, given the complexity of addressing this issue it would be better to deal with this a separate project in the future.

Horizon Scanning

34. The Chair opened the session and asked for member views on potential emerging issues.

35. A member highlighted the recent research work undertaken by the Institute of Chartered Accountants in England and Wales (ICAEW) and the China Accounting Standard Committee. This highlights the challenges of accounting for corporate data resources, and it was thought that in China this may lead to the creation of an interim accounting standard on accounting for data.

A.O.B.

36. Members were informed of the UKEB process for AFIAG succession planning.

37. Members were asked if they believed there was any appetite in the UK for early adoption of the forthcoming amendments on the Power Purchase Agreements projects. Members felt that if the amendments were available for adoption, some entities may wish to early adopt. However, this demand may be mitigated by the lead time required to operationalise the amendments. They were not aware of significant demand for early adoption in the UK.

38. The details of open UKEB consultations were tabled for noting. These were:

a) Draft Endorsement Criteria Assessment: *Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments.*

b) Draft Endorsement Criteria Assessment: *Annual Improvements to IFRS accounting Standards – Volume 11.*

c) Draft Comment Letter: *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures.*

d) Draft Comment Letter: *Equity Method of Accounting*—IAS 28 *Investments in Associates and Joint Ventures*

The next meeting will take place on 11 March 2025.

END OF MEETING