

# Meeting Summary of UKEB’s Academic Advisory Group meeting held on 23 September 2024 from 11.00-16.30

## Meeting Agenda

Item No.	Item
1	Welcome & introductions
2	Provisions: Targeted improvements
3	Cost of Capital
4	Climate-related and other uncertainties in financial statements (CROUFS)
5	Academic Session: Research update
6	Academic representation at IASB
7	Research update: UKEB and EAA
8	Horizon Scanning
9	AOB

Present	
Mike Wells	Chair, AAG and Member, UK Endorsement Board
Alan Jagolinzer	Member, AAG
Christian Stadler	Member, AAG
Wei Jiang	Member, AAG
Yannis Tsalavoutas (virtual)	Member, AAG
Janice Denoncourt (virtual)	Member, AAG
Ronita Ram	Member, AAG
Stefano Cascino	Member, AAG
Amir Amel-Zadeh (virtual)	Member, UK Endorsement Board

Apologies were received from Hafez Abdo and Francisco Urzua, AAG members.

Amir Amel-Zadeh attended item 2 only.

Relevant UKEB Secretariat Team members also attended the meeting.

## Welcome and introductions

1. The Chair welcomed the AAG members.

## Provisions: Targeted improvements

2. The UKEB Secretariat provided an overview of proposals being developed by the IASB staff to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
3. The ensuing discussion focused on the proposed amendments to requirements and guidance supporting the present obligation recognition criteria, considering in particular:
  - a) The change in the definition of a liability.
  - b) The current requirements of the present obligation recognition criterion and the possible new requirements.
  - c) A case study to assess the latest IASB proposals on the accounting for provisions under IAS 37.
4. Members highlighted the difficulty in identifying whether a transaction met all the present obligation recognition criteria. In particular, it was unclear whether a transaction should be assessed as an exchange or a transfer.
5. There were mixed views as to whether the anticipated amendments would reduce diversity in practice.
6. The IASB is expected to publish an Exposure Draft (ED) proposing targeted improvements to IAS 37 in November 2024. The detailed wording in the ED will be assessed to fully understand the potential impact of the proposals.

## Cost of Capital

7. The UKEB Economics team presented an update on the approach to conducting cost-benefit analysis for endorsement projects, including the application of this approach to the cost-benefit analysis of IFRS 18. The presentation included preliminary findings from the IFRS 18 surveys of users and preparers and a proposed cost of capital analysis.
8. Members were generally supportive of the approach. During the discussion members highlighted:
  - a) the proposed cost of capital analysis is a pragmatic approach and will effectively support the Board's decision-making on endorsement projects.
  - b) the cost of capital analysis will produce results that reflect averages and that this should be appropriately acknowledged in the final analysis.

- c) the analysis should not disregard the potential of other capital market outcomes arising from the introduction of a new standard.
  - d) comments on the distribution of the surveys and the interpretation of the results.
9. Members also highlighted ways in which the cost of capital analysis for a particular standard could be tested empirically both ex-ante and as a part of the post-implementation review, allowing for further refinement of the approach over the coming years.

## Climate-related and other uncertainties in financial statements (CROUFS)

10. The UKEB Secretariat provided an overview of the CROUFS project and the key points from the UKEB Draft Comment Letter. Points raised during the discussion that followed included:
- a) whether the illustrations had adequately reflected impacts on the financial statements. A member noted that example six (paragraph 6.4(b) of the ED) had reflected a financial statement impact.
  - b) it was noted that UKEB had expressed concern that the illustrative guidance may go beyond the current understanding of the requirements of paragraph 31 of IAS 1 *Presentation of Financial Statements* and that some aspects of the guidance may be better addressed by standard setting.
  - c) the importance of the IASB making it clear to users that, even though the illustrative examples would accompany the individual accounting standards they would not form part of the mandatory requirements.
  - d) that users be able to make connections, where appropriate, across general purpose financial reports. This would require the application of the same definition of materiality, clarity on the different objectives and time horizons for the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

## Academic session: Research update

11. A member gave a presentation of findings from an ongoing research study on connectivity in financial reporting, which involved reviewing annual report disclosures and interviews with financial reporting participants.
12. AAG members provided input on the project, including a discussion about expectations around connectivity and current issues highlighted by the interviewees in the study.

## Academic representation on the IASB

13. A member raised concerns about the anticipated lack of academic representation on the IASB and the FASB after current academic members leave.
14. In the ensuing discussion, AAG members shared their concerns and discussed various consequences for evidence-based standard-setting that could result from a lack of academic representation on the standard-setting boards. These included:
  - a) The importance of having at least one board member who can assess the quality and importance of academic evidence relevant to discussions.
  - b) It signals that academic perspectives are not valued.
  - c) It raises questions about the commitment to high quality evidence-based policy setting and principle based standard setting.
  - d) It is not consistent with the IFRS constitution that specifically references the importance of academic representation at the Board.
  - e) It creates a consequential lack of incentives for academics to align their research interests with those of national standard-setters.
15. The Chair indicated that this issue has been highlighted to the IFRS Foundation through the UKEB's relevant contacts.

## Research update: UKEB and EAA

16. An AAG member is also a member of the European Accounting Association's (EAA) Financial Reporting Standards Committee, which focuses on standard-setting issues and practice-relevant research among the EAA's academic community. This EAA committee recently invited the UKEB to become more involved in its work in order to strengthen links with the UK. A proposal to run an online workshop for academics on how to design research studies to align with the interests of standard-setters, in Spring 2025, with a UKEB contributor, has been suggested.
17. Discussions between the UKEB Secretariat and the EAA will follow this meeting. The Secretariat lead confirmed that updates would be provided to AAG members as this initiative develops.

## Horizon scanning

18. No further issues were highlighted by AAG members.

## Any other business

19. The Secretariat gave a brief update on the IASB's exposure draft *Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures (revised 202x)* which was published on 19 September 2024.
20. The Chair highlighted that the first term of AAG members, who were appointed at the inception of the group, is coming to an end. There is a need to stagger terms (1-3 years) for efficient succession. AAG members were alerted to upcoming discussions with the Chair about their appetite for renewing their membership for another term of office.
21. There being no other business, the meeting closed.
22. Next AAG meeting is currently scheduled for Friday 25 April 2025. Location to be advised.