UKEB
UK Endorsement Board

UKEB's Preparers Advisory Group meeting held on 28 March 2023 from 1.30pm to 5.30pm

Agenda

Item No.	Item
	Welcome
1.	**Influencing Endorsement & Adoption: IAS 12 *Income Taxes* - Amendments** Exposure Draft (ED) International Tax Reform: Pillar Two Model Rules Project Implementation Plan (PIP) and Draft Comment Letter (DCL)
2.	**Endorsement: Supplier Finance Arrangements**
3.	**Influencing: IASB Post implementation reviews (PIRs)**
3A.	**Influencing: PIR - IFRS 9 Impairment (Expected Credit Loss)**
3B.	**Influencing: PIR - IFRS 15 *Revenue from Contracts with Customers***
4.	**Influencing: ISSB - Connectivity between ISSB and IASB Standards: Asset recognition and impairment**
5.	**Inter-meeting feedback requested from PAG members**
6.	**Governance matters**
7.	**Horizon scanning**
8.	**AOB**

Meeting Minutes

Present	
Name	**Designation**
Pauline Wallace	Chair, UK Endorsement Board
Giles Mullins	Chair, PAG
Ben Binnington	PAG member
Cat Hoad	PAG member
Chris Buckley	PAG member
Ian Melling	PAG member
Jo Clube	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.

Welcome and Introduction

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

Influencing, Endorsement & Adoption: IAS 12 *Income Taxes* - Amendments: *International Tax Reform: Pillar Two Model Rules*

2. The UKEB Secretariat project team thanked the PAG for its assistance in highlighting to their contacts the roundtable for preparers and investors during February 2023 to assess stakeholder views on the IASB ED on this topic.

3. A clear majority of preparers were in favour of the Amendments, and the most common reason given was that accounting for deferred tax on Pillar Two top-up taxes was impracticable. The roundtable had raised the following key points on the proposed Amendments:

    a) The scope did not specify whether Pillar Two top-up taxes were income taxes.

    b) It was unclear why Pillar Two top-up taxes were required to be separately disclosed, when IAS 12 does not require this for any other tax.

    c) Paragraph 88C(a) could give rise to lengthy disclosure of little value.

    d) The usefulness of paragraphs 88C(b) and (c) was unclear: the IAS 12 effective tax rate was a poor proxy for the Pillar Two effective tax rate and paragraph 88C(c) did not provide a sufficient corrective to this information.

    e) Once the tax was effective, users might question the apparent reduction in disclosure, in particular regarding breakdown by jurisdiction, which could appear counterintuitive.

    f) A simpler requirement – focused on the tax impact – might tell the story more effectively.

4. These points had been reflected in the UKEB's Final Comment Letter, published 9 March 2023.

5. The PAG were asked for views on how urgently endorsement of the Amendments was required. PAG members made the following points:

    a) One member noted that preparers with a 31 December year end, producing interim accounts, would need a strong indication at 30 June 2023 that the Amendments would be endorsed.

    b) Another member noted that a group would need to reach agreement with its external auditors that applying the exception would be acceptable. As such, a target date would be useful.

c) Another member observed that groups would not want to have to calculate deferred tax and then reverse that calculation at a later date. It would help if they could avoid running parallel processes for interims.

6. Although the PAG shared the concerns outlined in the UKEB's comment letter, the PAG members agreed that speed in implementation is of the essence; the PAG favoured a decision being taken in July.

Endorsement: Supplier Finance Arrangements

7. The UKEB Secretariat project team provided background information on the project:

   a) The International Accounting Standards Board (IASB) plans issuing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* requiring entities to disclose additional information on an entity's use of supplier finance arrangements.

   b) The final amendments are expected in May 2023, with an effective date of annual reporting periods beginning on or after 1 January 2024. This would result in an unusually short period for the UKEB's endorsement work and for entities to prepare for the disclosure requirements.

   c) PAG members' early feedback ahead of the publication of the final amendments was sought so that it could be considered in the development of the UKEB Draft Endorsement Criteria Assessment (Draft ECA).

8. PAG members received a summary of the expected amendments, based on the IASB proposals in the Exposure Draft *Supplier Finance Arrangements* and subsequent IASB re-deliberations.

9. PAG members noted the following:

   a) One member questioned whether the scope of the amendments is intended to capture arrangements such as credit cards. It was noted that some credit card arrangements (particularly in the U.S.) may allow suppliers to receive payments earlier than the original due date. It was noted that a detailed assessment would be needed to understand whether similar arrangements are prevalent for UK companies and to assess against the final issued amendments.

   b) One member wondered whether amendments to IAS 7 were needed, as he thought current IFRS 7 requirements were sufficient basis for providing information about finance arrangements and liquidity risk.

c) Another member noted that requiring disclosure of the range of payment due dates of trade payables that are not part of supplier finance arrangements had widened the scope too far and could lead to a higher volume of disclosures, obscuring significant information for users.

d) The requirement to disclose 'the carrying amounts of financial liabilities for which suppliers have already received payment from the finance providers', was considered potentially challenging to access (and likely lead to additional costs) for preparers as well as potential implications for company audits.

10. The Secretariat noted the next steps on the project, with a Draft ECA expected to be published for public consultation shortly after the publication of the final amendments and a link to the document will be shared with PAG members.

Influencing: IASB Post implementation reviews (PIRs)

11. The UKEB Secretariat project team summarised the IASB's Post Implementation review (PIR) process and the relevant UKEB influencing process.

12. The Secretariat highlighted the two upcoming PIRs, IFRS 9 *Impairment (Expected Credit Loss)* and IFRS 15 *Revenue from Contracts with Customers*, on which the members would be asked to provide feedback, as part of the due process of providing a UKEB Comment letter to the IASB. The aim was to ensure that any comment letter is evidence based and incorporates feedback from UK stakeholders. The IASB's high threshold to undertake standard-setting on the basis of feedback from a PIR meant that there was a need for compelling evidence that a requirement in the standard is 'broken' and clear benefits for users of financial statements in addressing the concerns[1].

13. A member noted that framing discussions with users about how they used specific disclosures would be helpful, as there were often demands for more and more information for users without consideration to the burden on preparers.

Influencing: PIR - IFRS 9 Impairment (Expected Credit Loss)

14. The UKEB Secretariat project team noted that the IASB intended to publish the Post-Implementation Review (PIR) of the impairment requirements in IFRS 9 *Financial Instruments* shortly. The PAG views were sought to help inform the UKEB's response to the IASB.

15. PAG members were asked whether there were any fatal flaws in the IFRS 9 requirements on impairment. PAG members confirmed no fatal flaws had been identified.

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[1] See IASB Agenda Paper 8A of the September 2022 meeting, paragraphs 14 and 15 for the prioritisation criteria applied by the IASB to decide whether to take action on feedback heard from a PIR.

16. PAG members were then asked for views on a range of topics, including intercompany lending, financial guarantees, the simplified approach for trade receivables, interaction with IFRS 15 *Revenue from contracts with customers* and IFRS 16 *Leases*, and the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

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

a) One PAG member noted that insurers had only begun applying IFRS 9 for years commencing January 2023 and complexities on the interaction with IFRS 17 *Insurance Contracts* were in the process of being identified. Therefore, to allow all insurers time to identify practical challenges with IFRS 9, it will be important for such feedback to be gathered as part of the PIR of IFRS 17.

b) PAG members agreed that the simplified approach for trade receivables was helpful, however they observed the IFRS 9 implementation had not resulted in significant changes to corporates' loss allowances, in spite of the significant additional work required by the standard.

c) Applying intercompany lending requirements were identified as particularly challenging. It was felt that the impairment requirements were not written with intercompany balances in mind. It can be quite burdensome to apply the requirements and to provide the information required by their auditors.

d) One PAG member noted practical challenges arising from the relationship between concessions under IFRS 15 and impairments under IFRS 9. He questioned whether the recent IFRS Interpretations Committee discussion linked to the Agenda Decision '*Lessor forgiveness of lease payments (IFRS 9 and IFRS 16)*' may be helpful as it discusses the definition of 'credit loss'.

e) Members' views were sought on the requirements applicable to financial guarantees and factored receivables. Members did not raise significant concerns on these topics.

f) In relation to the credit risk disclosure requirements:

i. Some PAG members felt IFRS 9 was aimed at banks. As a result, the impairment requirements did not appear to produce valuable information for corporates (whose main financial instruments were trade receivables). There was little clarity on whether credit risk disclosures were used by users of their financial statements.

ii. Some PAG members considered that introducing simplified disclosure requirements, linked to the ECL simplified approach to trade receivables, would be particularly helpful. However, they did not favour extension of such a simplified disclosure approach, if introduced, to other items such as disclosures of leases.

iii. Other PAG members noted that, having developed the systems to implement the IFRS 9 requirements, including related disclosures, change might be disruptive with no guarantee of a better outcome.

g) A PAG member suggested that risk disclosures for subsidiaries could be simplified. Other PAG members agreed that the IASB's project *Subsidiaries without Public Accountability* would be helpful.

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

a) The UKEB Secretariat project team provided an update on the forthcoming Post-implementation Review (PIR) of IFRS 15. PAG members' views were sought for potential inclusion in the UKEB's draft Comment Letter to the IASB on the PIR.

18. Overall PAG members were of the view that IFRS 15 is working well and identified some application challenges. The key message was that the application of IFRS 15 involves significant judgements. Areas identified as being challenging include: identifying performance obligations, principal versus agent consideration, the volume of disclosure requirements, and the interaction between IFRS 15 and IFRS 16 *Leases*.

IFRS 15 as a whole and convergence with Topic 606

Standard as a whole

19. One PAG member noted that IFRS 15 had achieved its objective of establishing a single, comprehensive framework for revenue recognition and that it was an improvement on the previous requirements in IAS 18 *Revenue*. That member noted that whilst the implementation of IFRS 15 had not been a significant challenge, the on-going application of the standard requires significant judgement.

20. PAG members reported that IFRS 15 did not have an impact on how business operates. Whilst they did not receive questions from investors on the usefulness of information reported for their companies, they are aware of other companies that had to provide such explanation to investors.

21. One PAG member mentioned that IFRS 15 implementation was a significant exercise and noted that the significant impact was on audit costs, time and resources arising from the need to review judgements and the additional disclosures. Another PAG member reported the need for additional staff, particularly to deal with long-term contracts.

22. One PAG member noted the biggest impact of IFRS 15 was on judgements related to cloud computing and expense recognition.

Convergence with Topic 606

23. PAG members highlighted that convergence is vital for groups with US listing.

24. One PAG member noted that the Securities and Exchange Commission (SEC) regularly updates rules on Topic 606, which may contribute to increasing non-convergence between the two revenue standards. They highlighted the need for the IASB to maintain convergence by eliminating differences to the extent possible.

Five steps of revenue recognition and related areas

25. *Identifying performance obligation* — one PAG member noted that the identification of performance obligations in an aerospace and defence contract represented a significant change in practice due to the nature of those contracts. In practice, most such contracts are assessed on the basis of performance milestones. As such, measurement of performance milestones as performance obligations was preferred by that industry but was not possible under IFRS 15. This was an example of the accounting outcomes not reflecting the underlying economic substance i.e. recognising profit earlier than when earned.

26. *Determining the timing of revenue recognition* – one PAG member noted that identifying the point at which control is transferred to the customer required significant judgement and was challenging.

Principal versus Agent considerations

27. PAG members reported the following main concerns relating to principal versus agent considerations:

    a) It is unclear whether the entity is principal or agent regarding selling of content (e.g., media, etc) given the absence of the indicators of control i.e., inventory risk.

    b) It is an area of the standard that requires significant judgement. One PAG member said that in practice there was diversity in practice and auditor rotation can lead to a significant change here i.e., a new auditor may disagree with pre-existing conclusion on whether the entity is acting as a principal or agent.

    c) These concerns with principal versus agent considerations were however not 'fatal' flaws.

Disclosure requirements

28. One PAG member expressed concern about the volume of disclosures and the constant requests from users for additional disclosures. That PAG member considered that some of the disclosures are not useful and suggested exploring with users where and how they would use the information. An example suggested for exploration with users was whether they use information relating to opening contract balances.

Transition

29. One PAG member agreed that the modified retrospective method and practical relief offered by IFRS 15 reduced the cost and burden for preparers. Another PAG member disagreed that it was a relief due to the many questions from users and the need to provide clarifications.

Interaction with other IFRS Accounting Standards

30. One PAG member expressed concern about the accounting for sale and leaseback of aircrafts so that the requirement in IFRS 15 meant that if the transaction includes the option to repurchase the asset, the contract is accounted for as a financing arrangement rather than as a lease in accordance with IFRS 16. In the view of that PAG member, there is a conflict between IFRS 15 and IFRS 16 and the member suggested guidance be provided on which standard should take precedence.

Influencing: Connectivity between ISSB and IASB Standards: Asset recognition and impairment

31. The UKEB Secretariat project team provided an overview of the role and remit of the UKEB in relation to connectivity. The definition of connectivity being applied was that between ISSB Sustainability Disclosures and the information reported under the IASB Financial Accounting Standards.

32. A member noted that for the Greenhouse Gas Protocol (GHG) reporting required under [draft] IFRS S2 *Climate-related Disclosures* (S2) the reporting entities' boundary of control under those requirements did not align with financial reporting. It was agreed that this would likely lead to an unintended disconnect between the consolidation approach in financial reporting and the boundary of control for emissions.

33. Reporting in accordance with the GHG protocol is currently a requirement under UK legislation and that the disconnect would need to be considered if the IASB standards were endorsed for use in the UK.

34. Another member raised an issue with a statement in the recent FRC TCFD Climate reporting thematic review[2]:

> *"Only a small portion of companies disclosed the impact of climate change on amounts recognised in the financial statements."*

35. The member noted that where the risks was assessed as immaterial no disclosure would be required under accounting standards, hence the FRC finding limited evidence of disclosure in their study.

36. Some members considered that, as accounting standards require an outlook over the next 12 months, this made reporting a multi-year impact more challenging. There appeared to be an onus of proof on entities to disclose their assessment and conclusion.

37. PAG member feedback was sought on a number of case studies, the related questions and members responses are set out below.

Climate-related expenditure

38. A member commented that if expenditure with no economic benefit but with an associated long-term climate-related benefits were to be recognised as an asset, it would represent a radical change from the status quo. Another member commented that the economic benefit of an asset was set out in the conceptual framework. Proposing the introduction of a new category where the benefit was climate-related was not practical. A member noted that the recognition criteria should not change if the spend was climate-related and did not lead to an economic inflow. They viewed this disconnect as a legitimate difference between sustainability reporting and financial reporting.

Recognition of purchased and internally generated carbon credits

39. A member noted that if liabilities were attached to net zero commitments, then spend to purchase carbon credits to off-set emissions should be recognised as an asset.

Could non-economic environment benefits meet the accounting definition of an asset?

40. A member commented that the current accounting rules were appropriate and that the asset recognition criteria was clear. They preferred accounting principles to remain at the heart of asset recognition.

41. A member noted that a change to asset recognition criteria would mean that the other related areas for example, intangibles would also be impacted. It was noted

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2 The FRC Thematic Review can be found here

that the IASB had added a project on intangibles after its Third Agenda Consultation and the consideration of the interactions with climate may form part of that project.

42. Another member suggested that the criteria used in IFRS 6 *Exploration for and Evaluation of Mineral Resources,* where exploration assets are not considered for impairment or recoverability until certain milestones had been reached, may be helpful for the ISSB and IASB to consider in this regard.

Two different time horizons in an entity's annual report

43. Members noted that the difference in time horizons between sustainability risks and the requirements to consider risks for accounting purposes may present challenges for comparability and that clarity was required in relation to reporting of timeframes across an entity's value chain.

44. A member related an experience with a regulator where the entity had been requested to link their long-term climate policy to the shorter-term business policy. Linking the two and determining what was in scope of financial reporting and then determining measurement had been a challenging exercise.

Climate-related risk and asset impairment

45. Members commented that a clear definition of 'climate-related risk' was required to ensure consistent application. They also noted concern that addition of a general climate-related trigger for impairment may be problematic in practice as it may not reflect economic reality.

Inter-meeting feedback requested from PAG members

46. The PAG Chair asked for members' views on the approach to inter-meeting feedback, i.e., sending requests for input only if urgent matters arose that could not wait for the following meeting. Members were content with the approach, although they requested that News Alerts be issued once a week, with items marked for their input clearly highlighted.

Governance matters

47. The UKEB Technical Director gave a brief presentation on governance matters relevant to the PAG's activities.

Horizon Scanning

48. The Chair opened the session.

Liability Driven Investments (LDIs) and Discount rates

49. A member highlighted a recent presentation by the IASB which alluded to the possibility that government was being asked by a Parliamentary Select Committee to consider the appropriateness of the discount rates used in IAS 19 *Employee Benefits*.

50. In the ensuing discussion, the UKEB Technical Director explained that this was linked to the recommendations made in Lord Hollick's letter[3] suggesting that the UK Government and the UKEB needed to consider the link between IAS 19 discount rates and LDI strategies.

ISSB and ESRS Standards

51. There was a question about the equivalence of new standards set by the ISSB and the first set of draft European Sustainability Reporting Standards (ESRSs) developed by the European Financial Reporting Advisory Group (EFRAG) for reporting under the Corporate Sustainability Reporting Directive (CSRD). A PAG member was aware that there was a conversation about a third-party parent ESRS definition, and shared concerns about the level of detail required in the standards.

A.O.B.

52. The Chair noted that the next meeting was scheduled to take place on Monday, 12 June 2023.

53. There being no other business, the meeting closed at 17.20.

[3] Letter dated 7th February 2023 from Lord Hollick, Chair of the Industry and Regulators Committee, to the Economic Secretary to the Treasury and the Pensions Minister, on the use of leveraged liability-driven investment (LDI) strategies by defined benefit pension funds can be found here