Meeting Summary of UKEB's Academic Advisory Group meeting held on 19 September 2023 from 12:00 to 18:00

Meeting Agenda

Item No.	Item
1	Provisions
2	Connectivity and Conceptual Framework
3	Academic Engagement and the UKEB
4	Intangibles Update and Survey
5	Horizon Scanning
6	Any Other Business

Present	
Name	**Designation**
Mike Wells	Chair, AAG and Member, UK Endorsement Board
Pauline Wallace	Chair, UK Endorsement Board
Alan Jagolinzer	AAG Member
Christian Stadler	AAG Member
Francisco Urzua	AAG Member
Ioannis Tsalavoutas	AAG Member
Janice Denoncourt	AAG Member
Ronita Ram	AAG Member
Stefano Cascino	AAG Member
Wei Jiang	AAG Member

Apologies were received from Hafez Abdo.

Relevant UKEB Secretariat team members, including the UKEB Technical Director, were also present.

Welcome and Introduction

1. The Chair welcomed members to the Academic Advisory Group (AAG) meeting.

Provisions

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 the requirements and guidance supporting the present obligation recognition criteria, considering in particular:

   - The impact on provisions for some levies; and
   - The application to climate-related regulations and commitments.

In addition, the group briefly discussed IAS 37's requirements regarding the discount rate used to discount long-term provisions.

Impact on provisions for some levies

4. Recognising the fact that IAS 37 pre-dated the current version of the IASB's Conceptual Framework by some years, one member noted that any changes which enhanced the standard's consistency with the Framework were to be welcomed.

5. Members highlighted the inherent difficulty in identifying consistent principles underlying the accounting for different fact patterns, both in existing requirements and in the IASB staff's proposals. This seemed to be due in part to the lack of consistency between the requirements in different parts of IFRS including in particular in the IASB staff examples: different aspects of the liability definition seemed to be emphasised in different examples, perhaps to suit the desired outcome.

6. Regarding the specific levies example presented[1], views were mixed. Some members welcomed the added emphasis on the notion of 'no practical ability to avoid' and had sympathy with the earlier recognition of the liability for the levy. Others were uncomfortable with the identification of the past event that gave rise to the liability. In their view there is no liability because they see the levy as an obligation to exchange one economic resource (cash) for another economic resource (akin to a licence to operate), rather than an obligation to transfer an economic resource.

7. One member expressed the view that any proposed new requirement would need to be tested to confirm it also worked in 'extreme' scenarios, to ensure the underlying principles were robust. For example, a levy measured at say 1% of Y1 revenue is payable at the beginning of each of the next 10 years should the entity still be operating in that sector at each 1-year anniversary.

8. Another member questioned how the proposed changes would affect interim reporting, adding that clarity was needed on what interim reporting aimed to achieve. The danger was that the IASB fix might address challenges with annual reporting but lead to unintended consequences for the interim report. This challenge highlighted the difference between US GAAP and IFRS: the former took the annual cost and split it proportionally, while the latter aimed at a continuous update of cost.

Application to climate-related regulations and commitments

9. One member expressed the view that, if an entity made a public commitment to act on its climate impact, then the accounts needed to reflect the financial

[1] IASB Staff proposal illustrative example 13B: [ap22-appendix-b-provisions-drafting-suggestions-for-illustrative-examples.pdf (ifrs.org)](ap22-appendix-b-provisions-drafting-suggestions-for-illustrative-examples.pdf).

impacts of that commitment. Other members, however, expressed concern about subjectivity and possibilities for earnings management. Members also noted that recognition of a liability was only one part of the overall impact for an entity's accounts. For example, other possible impacts could be that existing assets might need to be depreciated on an accelerated basis, etc.

10. On the specific example presented[2], the question was raised as to consistency with the levies example and the latter's emphasis on 'no practical ability to avoid' – how did that notion impact on the net zero commitment example? For example, if the entity had no practical ability to avoid emitting greenhouse gases, might a provision be required earlier than the period in which those gases were in fact emitted?

11. Other members expressed the view that the example was somewhat unclear regarding the precise fact pattern and wondered whether the entity's obligation was in any way enforceable, and whether that was relevant. The absence in such examples of a legally enforcing counterparty could be a key challenge. The wording of the example might need to be revisited for clarity.

12. Finally, members noted the overarching drive to shape behaviour in this field and cautioned against developing accounting requirements being based on aspirational language rather than specific commitments. They cautioned that an entity's public statements can be easily changed, are not enforceable, meaning that there is no constructive obligation.

Discount rate used to discount long term provisions

13. One member noted that requiring entities to incorporate non-performance risk into provision measurement could lead to odd accounting results (for example, entities would recognise gains for a deterioration in their own credit standing). Another member questioned how an adjustment for own credit risk would be made in practice.

14. More generally, members considered that the question of own credit risk was a matter of minor refinement. There were probably more fundamental questions around the appropriate discount rate that needed to be addressed first. Members considered this would be best addressed by a cross-cutting project, not on a piecemeal, standard by standard basis.

15. Members agreed that improving disclosures would be an important first step, so that users of accounts would at least know the approach taken and, potentially, could make their own adjustments.

[2] IASB Staff proposal illustrative example 15: net zero commitment: ap22-appendix-b-provisions-drafting-suggestions-for-illustrative-examples.pdf (ifrs.org).

Connectivity and Conceptual Framework

16. The UKEB Secretariat introduced the topic to the members and requested their views on the connectivity or dis-connectivity between the IASB's Conceptual Framework (CF) and the conceptual elements included in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information.* The feedback was intended as input for the preparation of a staff paper on the connectivity issues relating to the CF.

17. At a high-level members felt that the CF should be consistent for both Financial Reporting Standards and Sustainability Disclosure Standards. They suggested this would require some amendments to the CF to make it equally useful to both standard setters.

18. Members noted that many CF concepts are specified as requirements in IFRS S1. However there are subtle differences in wording for the same concepts. For example, Faithful Representation:

    a) IFRS S1 para 13 (emphasis added): "…To achieve faithful representation, an entity shall provide a complete, neutral and *accurate depiction* of those sustainability-related risks and opportunities."

    b) CF para 2.13 (emphasis added): "To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and *free from error*."

19. It was suggested that where possible there should be more consistency between the CF and IFRS S1. Where there were inconsistencies, these should be carefully explained in the Basis for Conclusions.

20. It was also noted that unlike the CF (para 1.5), IFRS S1 does not seem to limit primary users to those existing and potential investors, lenders and other creditors that must rely of general purpose financial reports for much of the information they need. Others suggested that users of the sustainability reporting may not be limited to investors as set out in IFRS S1(ie existing and potential investors, lenders and other creditors). This also could impact that assessment of materiality, depending on the different categories of users of the financial and sustainability reporting.

Academic Engagement and the UKEB

21. The Chair provided an overview of the Board's engagement with academics and asked members for other ideas on how to improve the UKEB's engagement with academics.

22. It was suggested that Board Members or Secretariat staff could provide lectures to universities on topical accounting issues which would improve the UKEB's profile and establish relationships with academic accounting departments. Shorter recorded segments could also be considered if this was thought to be more efficient.

23. The Chair asked members to suggest approaches to receiving feedback from academics on specific projects.

24. Members made the following suggestions:

    a) Knowledge-exchange and engaging with academics undertaking relevant work. For example, if UKEB were to provide access to data, the academics' input could be to provide relevant evidence through research activities. In this case, the UKEB would not have any financial commitments.

    b) Jointly accessing/applying for research grants for targeted projects or development of literature reviews that would support the work of the UKEB.

    c) Seconding academics through a visiting fellowship program.

25. Members also suggested that the UKEB should be more proactive in engaging with academics such as making the work plan more visible, announcing research topics which the UKEB would be interested to consider and inviting academics to present their work to the Board and Secretariat. It is probable that academic associations such as BAFA (the British Accounting & Finance Association) would be keen to share information with their members.

26. Members noted that "impact" is an important element of academic work. Acknowledging the academic contribution to the UKEB's work would therefore be important to encourage academics to engage with topics relevant to the UKEB's work.

27. It was noted that the UKEB's publication of the consolidated version of "UK-adopted international accounting standards"[3] was an important resource for academics and students, as well as other stakeholders. Some suggested amendments were proposed by members as valuable enhancements and were subsequently implemented into the current document.

[3] UK-adopted international accounting standards | UK Endorsement Board (endorsement-board.uk)

IASB/ISSB Connectivity Intangibles Update and Survey

28. The Chair introduced the survey on intangibles, inviting members to read through it and asked for any comments.

29. Members provided written feedback on the survey, including suggestions on the wording of some questions, the length of the survey and the ordering of questions.

Horizon Scanning

30. Members highlighted issues related to the loss of entities from UK and international capital markets and the potential role of increasing regulation of listed companies.

Any Other Business

31. AAG members' attention was drawn to the two projects open for comment on the meeting date, with a request to provide comments if relevant to their area of work:

    a) Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers;* and

    b) Supplier Finance Arrangements.

END OF MEETING

Next Meeting Is Planned For The Week Commencing 22 April 2024.