UKEB
UK Endorsement Board

Summary of the Financial Instruments Working Group meeting held on 16 July 2024 from 2pm to 5pm

Meeting agenda

Item no.	Item
1	Welcome
2	Technical discussion: *Power Purchase Agreements*
3	Technical discussion: *Amendments to the Classification and Measurement of Financial Instruments*
4	Technical discussion: Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
5	Technical discussion: *Provisions – Targeted Improvements*
6	Horizon scanning
7	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
Kumar Dasgupta	FIWG member

Mark Randall	FIWG member
Mark Spencer	FIWG member (virtual attendance)
Richard Crooks	FIWG member
Robbert Labuschagne	FIWG member
Sarah Bacon	FIWG member (virtual attendance)
Stacey Howard	FIWG member
Michael Gaull	Observer

In attendance	
Name	**Designation**
Pauline Wallace	Chair, UKEB (virtual attendance)
Tony Clifford	Board member, UKEB
Sandra Thompson	Board member, UKEB (virtual attendance)
Seema Jamil-O'Neill	Technical Director, UKEB

A member of the Financial Reporting Council – Corporate Reporting Review team was present.

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*

Scope and 'own use'

2. The UKEB Secretariat introduced a summary of the UKEB Draft Comment Letter ("DCL") in response to the Exposure Draft Contracts for Renewable Electricity ("the ED"). In the discussion that followed, a number of FIWG members expressed their support for the IASB making changes to IFRS 9 to enable certain contracts for renewable energy to qualify for 'own use' treatment, thereby avoiding derivative accounting. In the discussion, members raised the following points:

a) Members highlighted problems arising from variable levels of production from renewable sources, coupled with practical difficulties of storage of electricity.

b) Members raised technical and market innovation as something requiring further consideration. They asked whether the ED proposals were capable of dealing with scenarios in which battery capacity could allow storage, or with other forms of contracts, such as those with a cap. One member highlighted uncertainty as to whether baseload contracts would be within the scope of the proposals or not.

c) Another member highlighted that the accounting problem also reflected a broader difficulty with electricity contracts, for which predicting demand and supply over very short time intervals is unrealistic.

d) Members also discussed the cost and complexity of fair valuing these contracts, a factor that also made hedge accounting complex.

e) Members briefly discussed the 'one month' time period for purchases of electricity when an entity has made sales of excess power, referenced within the 'own use' proposals. One member felt that the principle behind this should be clarified, while another member explained that they didn't read this time period as a rule.

Hedge accounting

3. The discussion moved on to the hedge accounting proposals in the ED:

a) One member raised the need for operational clarity on aspects of the proposals, for example in relation to variable volumes. Other members agreed with this point, and referred to the relevance of this for the measurement of hypothetical derivatives, and measuring ineffectiveness.

b) A member also raised a concern about the difficulties of looking far into the future for forecasting electricity usage, and questioned whether some relaxation was needed, similar to that proposed in the ED for own use.

c) In relation to forecasting, members raised the difficulties arising from the lack of observable data, and the limited markets for contracts with a long (e.g. 20 year or more) duration. Members also referred to the challenges of comparing these long-term forecasts with the actual transactions, taking place in 30 minute intervals, with quite wide variations in pricing in the spot market between day and night.

d) One member referred to the need for clarity on how and when amounts should be reclassified from the cash flow hedging reserve. Members noted that the concepts introduced by the ED are quite new, so it made sense to seek clarity on how different forms of ineffectiveness should be treated.

Disclosures

4. In relation to the disclosure requirements proposed in the ED, the following points were raised in discussion:

    a) Members discussed whether the disclosure proposals should apply only to contracts qualifying for 'own use' treatment or also to those to which the hedge accounting proposals are applied.

    b) Members also questioned the usefulness of the disclosures proposed by paragraph 42V.

    c) One member expressed the view that, other than new judgements on 'own use' and hedge accounting assumptions, the information that should be disclosed is already covered by existing disclosure requirements.

Technical discussion: *Amendments to the Classification and Measurement of Financial Instruments*

5. The UKEB was seeking member views on the recently published Amendments to IFRS 9 and IFRS 7: *Amendments to the Classification and Measurement of Financial Instruments* (the Amendments) to assist with the endorsement work on the Amendments.

6. The UKEB's timeline for considering the adoption of the Amendments was discussed. The aim was to reach a decision on adoption in time to permit entities to early adopt the Amendments, should they be adopted for use in the UK. During the discussion the following key points were made:

    a) The project plan proposed a UKEB vote on whether to adopt the Amendments in April 2025. This date included consideration of the various due process requirements the UKEB needs to comply with in reaching its decision. Members agreed that an April 2025 decision would be in time for 2025 half year reporting for entities with a December year end.

    b) Members also discussed the implications for quarterly reporting. It was noted that 31 March results are usually announced in late April or early May, which would be subsequent to the planned vote in April 2025.

    c) The appetite for early adoption of the classification requirements was unclear. One member observed that, based on the current product set, the use of the de-minimis exemption could successfully continue to be used in the short term, reducing the pressure to early adopt.

7. The amendments to the recognition and derecognition of financial assets and liabilities were discussed. The following key points were made:

a) The amendments clarify the requirements for derecognition. Due to the previous lack of clarity there was expected to be a range of existing practices amongst entities, some of which would need to change to align to the amendments. The improved clarity is expected to improve consistency of practice.

b) To determine what, if any, changes would be required an exercise would need to be undertaken to identify existing practices. This investigation would largely require the application of additional human resources, so the cost was considered relatively low. Depending on the findings of this review changes to practices may be required. This may include system changes such as how/when payment system information feeds into the ledger. Depending on the nature and extent of the findings this was considered to have a low to medium cost impact.

c) For those wishing to use the new alternative to settlement date, an analysis of the contractual terms of various payment systems would be required to determine if/at what point they met the necessary criteria. This is a significant piece of analysis. However, members expected this would be undertaken centrally, for example by industry working groups, which would mitigate the cost to any individual entity and drive consistency of practice.

8. The amendments to the classification of financial assets were discussed. The following key points were made:

a) Members agreed that the amendments provided a clearer, and thus more efficient, route to achieving the classification result achieved today by other means. In the case of the amendments to non-recourse features and contractually linked instruments the amendments were considered to largely reflect existing practice.

b) Accordingly, there was no expectation of material additional cost associated with these amendments.

c) Members noted further benefits of "de-risking" the finance process - the additional guidance provided a clear path to follow, reducing the risk of incorrect classification. It also removed any reliance on the de-minimis exemption, which may be important for the ESG-linked product set as it continues to grow. It was noted that the increased clarity was also likely to improve the consistency of approach.

9. The new disclosure requirements in IFRS 7 were discussed. The following key points were made:

a) The additional disclosure requirements for instruments with contingent features were new and would affect many financial institutions. It was thought likely that entities would hold the relevant data to produce the disclosure, but it was likely it did not currently reside in the finance function

and an exercise would be required to identify and source the data. This would involve the allocation of human resources, and possibly the creation of IT feeds/system changes for entities that wished to automate the process. This was described as having low to medium cost implications, depending on the degree of IT systems work. Costs would be primarily incurred at the time of implementation. Material ongoing costs would not be expected post-implementation.

b) Several members noted that investments in equity instruments designated at fair value through other comprehensive income were not common in the UK – this was a designation more often used in the EU insurance industry. Accordingly, they did not believe that the additional disclosure requirements for such instruments would give rise to material change or costs in the UK.

Technical discussion: Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

10. The IASB has made tentative decisions in relation to the forthcoming exposure draft to amend the *Subsidiaries without Public Accountability: Disclosures* standard (catch-up ED), expected in July 2024.

11. The UKEB Secretariat summarised the latest updates from the IASB with a focus on the consequential amendments to IFRS 19 resulting from the *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7). Member views were sought on the following two topics:

    a) the potential use of IFRS 19 by eligible subsidiaries within their groups; and,

    b) the proportionality of the disclosures introduced in IFRS 19 from the amendments to IFRS 7 *Financial Instruments: Disclosures*.

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

    a) The general view was that not many disclosures were excluded from IFRS 19 which was considered inconsistent with the objective of a reduced disclosure framework. One member considered that some of the disclosures arising from the amendments to IFRS 7 could be seen as already addressed by existing requirements in IFRS 7 paragraph B10A.

    b) Some members noted that UK subsidiaries in the banking and insurance sector typically report under either full IFRS Accounting Standards or the UK Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). Members would need to undertake a cost and benefits assessment before making a decision on whether or not to transition eligible subsidiaries to IFRS 19.

c) For banking and insurance groups, the definition of public accountability excludes their operating subsidiaries, which meant that only small service type companies or property companies would be eligible to use IFRS 19. For some groups there could be a significant number of entities of this type, but the benefits of applying IFRS 19 would need to be assessed for individual facts and circumstances.

d) It was noted that although the disclosure requirements in IFRS 19 are perceived to be quite extensive, in practice the impact of the requirements might be more limited. This is due to the less complex nature of the eligible subsidiaries, and therefore, many disclosure requirements might not be applicable.

13. Overall, members supported the view that IFRS 19 would be attractive to large (non-financial) corporates with multiple overseas subsidiaries across different jurisdictions. They also welcomed having the option available to groups with eligible subsidiaries for which the benefits of applying the standard would outweigh the costs.

Technical discussion: *Provisions – Targeted Improvements*

14. The UKEB Secretariat presented a summary of the IASB tentative decisions on its project *Provisions – Targeted Improvements*, with a focus on those directly relevant to transactions currently accounted for under IFRIC 21 *Levies*.

15. As part of its project, the IASB has tentatively decided to withdraw IFRIC 21 and to specify instead that:

a) When an obligation to transfer an economic resource is triggered only if an entity takes two (or more) separate actions, the entity incurs a present obligation when it takes the first action if it *has no practical ability to avoid* taking the other action (or all other actions).

b) When an obligation to transfer an economic resource arises only if a measure of its activity in a period exceeds a specified threshold, a present obligation arises *as the entity carries out the activity* that contributes to the total amount of activity on which the cost is measured.

16. During the discussion, the following key points were made:

a) The IASB project on targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is welcome. In the past there has been some dissatisfaction with IFRIC 21, particularly from users of accounts.

b) Questions were raised as to how to interpret certain aspects of the proposals, in particular, the requirement in 15a) above in relation to the 'no practical ability to avoid' test.

c) It was not clear whether the IASB tentative decisions would work in all circumstances, and it was noted that the precise wording in the IASB exposure draft will need to be considered, as well as the specific requirements in relevant legislation.

d) IASB examples that illustrate the intended accounting would be very helpful to assist with understandability of the proposals and consistent application. FIWG members were encouraged to share real-life examples that could be used for this purpose.

Horizon scanning

17. The Chair asked for current or emerging issues in the financial reporting environment for financial instruments, that members considered warranted discussion during this or a future meeting.

18. FIWG members suggested monitoring the following projects, currently in the IASB Work Plan:

    a) Dynamic Risk Management.

    b) Amortised Cost Measurement (currently in the IASB research project pipeline).

    c) Climate-related and Other Uncertainties in the Financial Statements – in particular, the anticipated illustrative example on credit risk disclosures (IFRS 7).

Any other business

IFRS Interpretations Committee pipeline

19. Members were asked about a recent submission to the IFRS Interpretations Committee "Accounting for corporate guarantee contracts issued by the Investor entity in relation to obligations of its joint venture in its separate financial statements". Members observed that the particular fact patterns were not a significant issue in the UK. While there may be some broader uncertainty around the boundaries of the relevant standards (IFRS 9 *Financial Instruments*, IAS 37, IFRS 17 *Insurance Contracts*), they are not aware of concerns about accounting outcomes or diversity in practice.

UKEB website – user research project

20. The UKEB is undergoing a research project to enhance its website and stakeholder views are valued. A link to a user survey would be shared with FIWG members after the meeting.

Next FIWG meeting

21. An invitation for a FIWG meeting in Autumn 2024 would be sent in due course.