

6 April 2009

**GOVERNMENT FINANCIAL REPORTING
MANUAL (FReM) EXPOSURE DRAFT No:**

2

EXPOSURE DRAFT OF PROPOSED
AMENDMENTS TO THE FReM

**Draft Amendments to the FReM
following changes IAS 1 *Presentation of
Financial Statements***

Comments to be received by 6 July 2009



HM TREASURY

Assurance and Financial Reporting Policy Team

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This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by **6 July 2009**. Respondents are asked to send their comments electronically to FReM.consultation@hm-treasury.gov.uk.

All responses will be published on the FReM website unless the respondent requests confidentiality.



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Proposed amendments to the FReM

Introduction

Financial Reporting & Audit Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed.
- (b) When necessary, any specific additional question unique to that proposed amendment;
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment;
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) Answer the question as stated;
- (b) Indicate the specific paragraph or paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 6 July 2009. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

General questions (applicable to all proposed amendments)

Question 1

Do you agree with HM Treasury's proposal to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 2

Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?

Question 3

Do you agree that the Operating Cost Statement should, where relevant, be renamed the Statement of Comprehensive Expenditure so as to align it as closely as is possible to the IAS 1 terminology? If not, why not, and what alternative do you propose?

Question 4

Do you have any comments on the proposed Department Yellow, NDPB Green or Agency Pink formats for the Statement of Comprehensive Expenditure and the Statement of Changes in Equity?

FReM chapters addressed

The following table shows the topics addressed by the proposed amendments.

FReM Chapter	Subject of amendment
Chapter 5, Annual Accounts	Change in name and content of 'Operating Cost Statement'.
Chapter 5, Annual Accounts	Change in content of 'Statement of Changes in Equity', no change in FReM text is required as a result of this change.
Chapters 3, 6, 8,9 and 11	Numerous references to 'Operating Cost Statement' amended to read 'Statement of Comprehensive Expenditure'

Proposed amendment to Government Financial Reporting Manual Chapter 5 *Form and content of the Annual Report and Accounts* and to other miscellaneous reference in Chapters 3, 6, 8, 9 and 11.

Background to Proposed amendment

The IASB made a number of changes to IAS 1 *Presentation of Financial Statements* in May 2008, as part of its Annual Improvements Project. Many of the changes were superficial, e.g. changing the names of the primary statements, rather than changes of accounting substance. The 2009/10 FReM has been amended to reflect these changes, the detail of which will be subject to separate Treasury notification through the Head of Accounting Profession (HOAP) monthly technical updates issued by the Assurance and Financial Reporting Policy Team in the Treasury

In addition to the superficial changes the IASB made some changes to the structure of the Income Statement and the Statement of Changes in Equity, which have wider ramifications for the Central Government Sector. These changes are addressed in this Exposure Draft. As part of the improvement of IAS 1 the Income Statement is renamed the Statement of Comprehensive Income. There is also a change in content of the Statement of Comprehensive Income and the Statement of Changes in Equity.

Why the amendment is proposed

The May 2008 changes to IAS 1 require that those items, which in the past have been taken to reserves, which are in nature income and expenditure (e.g. valuation movements), are included in the Statement of Comprehensive Income. As such, only those items that properly reflect reserve movements are taken to the Statement of Changes in Equity. The two statements are linked as net comprehensive income is transferred to the relevant reserves.

Statement of Comprehensive Income

For most Central Government entities a Statement of Comprehensive Income suffers from the same limitations as do the terms Income Statement or a Profit and Loss account. Therefore, to align the statements prepared by central government entities as closely as possible with the requirements of IAS 1 it is proposed that the Operating Cost Statement be renamed the Statement of Comprehensive Expenditure (trading funds and some self funding NDPBs applying the Standard in full). Those items that pass through the OCS at present will be shown in the first part of the statement, which will sum to total Operating Cost for the year. This will be followed with those items of income and expenditure that have traditionally been taken direct to reserves, the statement summing to Total Comprehensive Expenditure.

The proposed Department Yellow, NDPB Green and Agency Pink versions of the Statement of Comprehensive Expenditure are contained in an annex, see the Proposed Amendments section below.

Statement of Changes in Equity

The Statement of Changes in Equity broadly follows that in IAS 1. As with the existing Statement of Changes in Equity there are a number of items within the Statement unique to Central Government (e.g. parliamentary supply, consolidated standing services, non-cash adjustments, donated asset reserve, government grant reserve etc.).

The proposed Department Yellow, NDPB Green and Agency Pink versions of the Statement of Changes in Equity are contained in an annex, see the Proposed Amendments section below.

Non-exchange Transaction

The FReM treats certain capital related non-exchange transactions (government grants and donated assets) as equity. As such, they appear as reconciling items in the Statement of Changes in Equity. The Treasury is reviewing the accounting treatment of such transactions, this may result in a further change in the content of the Statement of Changes in Equity.

Impact on Budgets and Estimates

The proposals detailed in this Exposure Draft have no impact on budgets or Estimates.

Proposed amendments

As a result of the proposals in this Exposure Draft there will be numerous changes to the FReM, mainly to amend reference to the Operating Cost Statements. The annexes detailed below show the impact on specific FReM chapters and the Department Yellow, Agency Pink and NDPB Green proformas.

Annex A, FReM Chapter 5, Format and Content of the Annual Report and Accounts
Annex B, FReM Chapter 3, Parliamentary Accountability
Annex C, FReM Chapter 6, Tangible non-Current Assets
Annex D, FReM Chapter 8, Impairments
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Annex L, NDPB Green, Statement of Changes in Equity

Effective date of amendment

The effective date for the proposed amendment is 1st April 2010.