

17 December 2009

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

(09)09

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

Amendment to IFRS 8 Operating Segments

Comments to be received by 8 February 2010



HM TREASURY

**FINANCIAL REPORTING & AUDIT POLICY TEAM
HM TREASURY**

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 **8 February 2010**. 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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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 8 February 2010. 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.

IFRS 8, Operating Segments	
Why the amendment is proposed	In its April 2009 <i>Improvement to IFRS</i> paper the IASB amended the requirements of IFRS 8, <i>Operating Segments</i> . The amendment changes ‘total assets’ from a mandatory reporting requirement for reportable segments to only being required where total assets for segments are regularly reported to the chief operating decision maker. The amendment proposed in this Exposure Draft seeks to amend the FReM so that it remains aligned with the requirements of the standard.
Paragraph affected by the amendment	5.4.27 c)
Proposed date	1 April 2010

Background

The IASB have improved IFRS 8 so that total assets for reportable segments are only reported to the chief operating decision maker. The FReM interprets IFRS for departments so that departments reportable segments are its agreed strategic objectives. The FReM further interprets IFRS 8 so that the mandatory reportable items for a segment are those equivalent items for the central government context.

For all other entities (i.e. that are not departments) the standard continues to apply in full.

Summary

The Exposure Draft proposes that total assets are no longer a mandatory reportable item for departmental segments and only reported where senior management regularly reviews such information.

General questions

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, detailed in the exposure draft? If not, why not, and what alternative do you propose? The Treasury would welcome views on early adoption, for 2009/10, of the proposals in this exposure draft.

FReM chapters addressed

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

FReM Chapter	Subject of amendment
Chapter 5, Form and Content of Annual Report and Accounts	To remove the requirements to report total asset for reportable segments.

Proposed amendment to Government Financial Reporting Manual Chapter 5, *Form and Content of Annual Report and Accounts*

Introduction

An amendment to Chapter 5, *Form and content of Annual Report and Accounts* is proposed.

Why the amendment is proposed

In its April 2009 *Improvement to IFRS* paper the IASB amended the requirements of IFRS 8, *Operating Segments*. The effect of the amendment is to downgrade 'total assets' from a mandatory reporting requirement for reportable segments to only being required where total assets for segments are regularly reported to the chief operating decision maker. The reporting of total assets for reportable segments, therefore, being treated in the same way as total liabilities.

Proposed amendment

The FReM interprets IFRS 8 for departments, all other bodies applying the standard in full. The main purpose of the interpretation is to set departments' reportable segments as the agreed strategic objectives. The interpretation goes on to define the reportable components for a segment, which requires departments report the equivalent elements to that required by IFRS 8 for commercial entities. IFRS 8 required companies report profit and loss and total assets, the FReM requires departments report gross expenditure, income, net expenditure and total assets.

Treasury does not wish to impose greater burdens on departments than that required by the IFRS 8. As such, the Treasury propose that, in line with the amendment to IFRS 8, the reporting of total assets for reportable segments moves from a mandatory requirement to only being required where such segmental information is regularly reviewed by senior management.

Paragraph 5.4.26 is amended (new text is underlined and deleted text is struck through).

5.4.26 Departments financed through Westminster or the Northern Ireland Assembly Estimates process and the Scottish Government should apply IFRS 8 as interpreted below. All other reporting entities should apply IFRS 8 in full.

- a) a department's reportable segments will be its agreed strategic objectives;
- b) departments will prepare, as a primary financial statement, a Statement of Net Operating Cost by Departmental Strategic Objectives;
- c) departments will report for each strategic objective: gross expenditure, income, and net expenditure and total assets on a full allocation basis;
- d) departments will report any further segmental information required by IFRS 8 that is regularly reviewed by senior management (see 5.2.6d); and
- e) departments will disclose the linkage between strategic objectives and public service agreements targets.

Effective date of amendment

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