

21 July 2011

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

**(11)02**

EXPOSURE DRAFT OF PROPOSED

**AMENDMENTS TO THE FReM**

***Application of IFRIC 19: Extinguishing  
Financial Liabilities with Equity Instruments***

Comments to be received by 15 September 2011



HM TREASURY

## **FINANCIAL MANAGEMENT AND REPORTING GROUP 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 **15 SEPTEMBER 2011**. Respondents are asked to send their comments electronically to [FReM.consultation@hmtreasury.gsi.gov.uk](mailto:FReM.consultation@hmtreasury.gsi.gov.uk)

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



**HM TREASURY**

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# **Proposed amendments to the FReM**

## **Introduction**

Financial Management and Reporting Group, 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 questions 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 15 September 2011. 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.

<b>Amend the FReM to include applicability of IFRIC 19</b>	
Why the amendment is proposed	<p>The FReM does not provide guidance to reporting entities on the applicability of IFRIC 19.</p> <p>The proposed amendment updates the FReM to include guidance on the applicability of IFRIC 19.</p>
Paragraphs affected by the amendment	9.2.17
Proposed date	1 April 2011

**Background**

1. IFRIC 19 sets out the accounting treatment for those situations where an entity extinguishes a financial liability by issuing equity, rather than settling in cash.
2. The 2011-12 FReM does not currently provide guidance on the applicability of IFRIC 19. The FReM should be updated to include reference to the applicability of IFRIC 19.

**Proposal**

3. The exposure draft proposes that reporting entities should apply IFRIC 19 without interpretation and adaptation, subject to the existing requirements of the FReM, as outlined in Chapter 9 Financial Instruments.
4. IFRIC 19 requires the equity paid, or received as consideration, to be reported at fair value. However, the 2011-12 FReM requires investments in other public sector entities to be reported at historic cost. Therefore IFRIC 19 will apply, subject to the specific requirements in paragraph 9.2.7 c).
5. From 2012-13 the FReM will require investments in other public sector entities (other than Public Dividend Capital) to be reported at fair value. Therefore IFRIC 19 will apply in full from 2012-13.

## **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?

## **FReM chapters addressed**

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

<b>FReM Chapter</b>	<b>Subject of amendments</b>
Chapter 9, Financial Instruments	<p>Provision of guidance on the accounting treatment for those situations where a reporting entity extinguishes a financial liability by issuing equity to the creditor.</p> <p>Guidance on the accounting treatment for such a situation is not currently provided in the FReM.</p>

# **Proposed amendment to Government Financial Reporting Manual Chapter 9, *Financial Instruments***

## **Introduction**

An amendment to Chapter 9, *Financial Instruments* is proposed.

## **Why the amendments are proposed**

The amendments proposed in this Exposure Draft seek to amend the FReM to include reference to the applicability of IFRIC 19 to reporting entities. At present the FReM contains no reference to IFRIC 19.

## **Proposed amendments**

The proposed amendment sets out the applicability of IFRIC 19 to reporting entities, and also summarises the consensus of IFRIC 19, such that it might apply to reporting entities.

### **IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments**

#### ***Applicability***

9.2.17 IFRIC 19 applies in full to all reporting entities covered by the Manual, subject to the requirements of paragraphs 4.2.4 and 9.2.7 c).

## **Effective date of amendment**

The effective date for the proposed amendment is 1 April 2011.