

**HM Treasury review of new IFRS issued and/or effective during the 2011-12 financial year**

This review provides a guide to reporting entities applying the FReM on both the new IFRS standards that have been issued that are not yet effective and those that are effective for the first time in 2011-12. The details are provided in three sections:

- I. Standards that are effective for the first time in 2011-12: providing a high level assessment of the impact on reporting entities. Entities should consider the impact and apply any necessary changes to 2011-12 annual accounts accordingly. These have been incorporated into the 2011-12 FReM, with amendments made where the standard has been interpreted or adapted for the public sector context. A link is provided to all [FReM changes](#) made for 2011-12 and 2012-13.
- II. Standards issued but not yet effective and providing an early assessment of the expected impact during initial application, in accordance with IAS 8 requirements. This assessment will take into consideration current EU adoption, current relevant FReM interpretations or adaptations and a high level impact assessment, specific to central government.
- III. Accounting initiatives for which the standards are under development.

This guidance is to assist reporting entities but further analysis may be required where the impact is expected to be significant.

## I. Accounting Standards and other FReM changes issued and effective in 2011-12 for the first time

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
IFRS 3- Business Combinations (annual improvements)	1 July 2010 (EU Adopted)	2011-12 (up to scope limitation)	<u>Measurement of Non-controlling interests</u> - The choice of measuring non-controlling interests at fair value or the proportionate share of the acquiree's net assets only applies where ownership interest entitles the holder to a proportionate share of net assets. Other non-controlling interests are measured at fair value.	IFRS 3 excludes from its scope business combinations involving entities or businesses under common control, of which all public bodies are deemed to be.  The amendment applies to all combinations involving an entity within the public sector with an entity outside the sector.
IFRS 7 - Financial Instruments: Disclosures (annual improvements)	1 January 2011 (EU Adopted)	2011-12	Amendments to the disclosure requirements of the nature and extent of risks arising from financial instruments, in particular, linking qualitative and quantitative disclosures and clarifying collateral disclosure.	The FReM applies IFRS 7 in full, and the expectation is that it will continue to do so. This will incorporate these increased disclosures.
IAS 24 - Related Party Disclosures (amendment)	1 January 2011 (EU Adopted)	2011-12 - with current FReM interpretations	The amendments: <ul style="list-style-type: none"> <li>• clarify the definition of a related party; and</li> <li>• simplify the disclosure requirements that are controlled, jointly controlled or significantly influenced by a government.</li> </ul>	The FReM interpretation of IAS 24 (Chapter 5) covers the areas amended by IASB and applicable to the public sector, from 1 January 2011.
IAS 34 - Interim Financial Reporting (amendment)	1 January 2011 (EU Adopted)	No	Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.	There is no requirement to publish interim financial reports.

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IFRIC 13 Customer Loyalty Programmes (amendment)	1 January 2011 (EU Adopted)	No FReM reference	Clarifies that the 'fair value' of award credits should take into account: the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale; and any expected forfeitures.	Any impact on public sector accounting is considered immaterial.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 January 2011 (EU Adopted)	2011-12	Sets out the accounting treatment where an entity issues equity instruments to settle a financial liability.	Following consultation (FReM (11)02) and FRAB approval, IFRIC 19 will apply in full from 2011-12

All changes made to the FReM, applicable from 2011-12 or 2012-13 are provided [here](#).

## II. Accounting Standards issued but not yet effective

IAS 8 (paragraph 30) states that “when an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- This fact; and
- Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity’s financial statements in the period of initial application.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
IAS 1 – Presentation of financial statements (Other Comprehensive Income)	1 June 2012 (not EU adopted yet)	Subject to consultation	Requiring items of OCI to be grouped on the basis of whether they might at some point be reclassified (‘recycled’) from OCI to profit (e.g. cash flow hedges) or where they will not (e.g. gains on property revaluation). This will make it clearer to users what their potential effect on profit or loss will be in future periods, notably in light of improved disclosure of financial instruments and pensions, and where there will be no impact. Amendments also allow simplified reporting for discontinued operations and OCI tax grouping.	The application of the IAS 1 amendment is subject to further review by HM Treasury and the other Relevant Authorities before due process consultation.  The FReM interprets IAS 1 disclosure already, notably to ensure consistent reporting across departments. Application will be considered where this enhances public sector reporting.
IAS 12 - Income Taxes (amendment)	1 January 2012 (not EU adopted yet)	Subject to consultation	The amendment introduces a presumption that recovery of the carrying amount of an asset will normally be through sale rather than asset use. Current requirements to measure the deferred tax relating to an asset depend on whether the entity expects to recover the carrying amount of the asset through use or sale, creating difficulties in	There is a potential impact on tax registered ALB’s where deferred tax is based on the value in use of the underlying assets but the business objective is to recover the asset value through sale rather than consumption of economic benefit.

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			assessment (especially when measured at fair value e.g. IAS 40 Investment Property).	
IAS 19 – Post-employment benefits (pensions)	1 January 2013 (not yet EU adopted)	Subject to consultation	<p>The amended IAS 19 introduces a number of changes including:</p> <p>Recognition – the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the ‘corridor approach’);</p> <p>Presentation – the elimination of options for the presentation of gains and losses relating to those plans; and</p> <p>Disclosures – the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans.</p> <p>It also modifies accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits.</p>	<p>The corridor approach is not permitted by the FReM so the main impact of the change will not be relevant.</p> <p>There may, however, be impacts on defined benefit pension scheme accounts and other entities consolidating defined benefit schemes due to the new presentation and disclosure requirements.</p> <p>Entities may also be impacted by modifications to accounting for termination benefits.</p>
IFRS 7 - Financial Instruments: Disclosures (annual improvements)	1 July 2011	2012-13	<p>Increased disclosure requirements for transfers of financial assets.</p> <p>Where entities have transferred financial assets outside of the legal body, disclosures are required to reflect the impact of this, particularly where the entity retains some form of interest in those assets.</p>	The FReM applies IFRS 7 in full, and the expectation is that it will continue to do so. This will incorporate these increased disclosures.
IFRS 9 – Financial Instruments	1 January 2015 (as per	Subject to consultation	The project has three phases.	There are likely to be elements of the final proposals that will require further review by HM

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	exposure draft issued 4 August 2011 – not yet EU adopted)		<p>Phase 1 addresses classification and measurement issues.</p> <p>Phase 2 addresses impairments – in particular how impairments of financial assets should be calculated and recorded.</p> <p>Phase 3 addresses hedge accounting. IAS 39 previously contained guidance on Hedge Accounting – this will be updated with more detailed guidance and principles on hedge accounting, including guidance on accounting for certain hedging relationships.</p>	<p>Treasury and the other relevant authorities before due process and consultation.</p> <p>However, this due process cannot commence until a final IFRS has been issued.</p>
IFRS 10 (Consolidated Financial Statements), 11 (Joint Arrangements), 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures)	1 January 2013 (not yet EU adopted)	Subject to consultation	<p>IASB have issued new and amended standards that affect the consolidation and reporting of subsidiaries, associates and joint ventures:</p> <ul style="list-style-type: none"> <li>• IFRS 10 definition of control (investor power and ability to direct activities of an investee) requires more judgement, notably of agency-principal relationships. Clarity on investor exposure or rights to variable returns (e.g. cost savings) may result in new consolidations, notably asset and fund managers.</li> <li>• IFRS 11 provides a principles-based definition of joint arrangements (joint operations or joints ventures) based on rights and obligations. Proportional consolidation accounting for joint ventures is no longer permitted (only equity accounting).</li> <li>• IFRS 12 requires more disclosure of the financial effects on, and risks to, the consolidating entity.</li> </ul>	<p>The application of these IFRS changes is subject to further review by HM Treasury and the other Relevant Authorities before due process consultation.</p> <p>Accounting boundary IFRS' are currently adapted in the FReM so that the Westminster departmental accounting boundary is based on ONS control criteria, as designated by Treasury. Trading funds and NDPB's apply IFRS in full.</p> <p>With the continuation of current adaptations, the impact on departments is expected to focus around the disclosure requirements under IFRS 12.</p> <p>The impact on the consolidation boundary of NDPB's and trading funds will be subject to review, in particular:</p> <ul style="list-style-type: none"> <li>• where control could be determined to exist</li> </ul>

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				<p>due to exposure to variable returns (IFRS 10); and</p> <ul style="list-style-type: none"> <li>• where joint arrangements need reassessing.</li> </ul>
IFRS 13 – Fair Value Measurement	1 January 2013 (not yet EU adopted)	Subject to consultation	<p>IFRS 13 has been prepared to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS (except where IFRS 13 explicitly states otherwise):</p> <ul style="list-style-type: none"> <li>• The standard defines fair value, provides guidance on fair value measurement techniques, and sets out the disclosure requirements.</li> <li>• The standard requires fair value be measured using the most reliable data and inputs available to determine the <b>exit price for an asset / liability</b>. This exit price is taken to be the price that two market participants (a buyer and seller) would settle on.</li> <li>• To ensure transparency over the differing quality of inputs used to determine fair value, the standard has established a <b>hierarchy for input quality</b>. <ul style="list-style-type: none"> <li>- <b>Level 1 inputs</b> (highest quality) are published prices available in an active market;</li> <li>- <b>Level 2 inputs</b> are observable data available in a non-active market; and</li> <li>- <b>Level 3 inputs</b> (lowest quality) are all other inputs, which are mostly unobservable.</li> </ul> </li> <li>• Entities are required to use the most</li> </ul>	<p>The application of IFRS 13 is subject to further review by HM Treasury and the other Relevant Authorities before due process consultation.</p>

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			<p>appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input.</p> <ul style="list-style-type: none"> <li>IFRS 13 requires additional disclosures where level 3 inputs are used to assess fair value, to give readers an understanding of how the valuation has been calculated.</li> </ul>	
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	New interpretation – No current FReM reference	The Interpretation clarifies when production stripping should lead to the recognition of an asset (tangible or intangible) or if costs should be accounted for in accordance with the principles of IAS 2, <i>Inventories</i> to the extent that the benefit from the stripping activity is realised in the form of inventory produced. It also clarifies how the asset should be measured, both initially and in subsequent periods.	<p>The application of IFRIC 20 is subject to further review by HM Treasury and the other Relevant Authorities before due process consultation.</p> <p>Surface mining in the UK is operated outside of the public sector. Early review considers any impact on public sector accounting to be immaterial.</p>
IPSAS 32 - Service Concession Arrangement	1 January 2014	Subject to consultation	IPSAS 32 provides a financial reporting standard for the grantor in accounting for service concession arrangements	<p>IFRIC 12 is interpreted for the public sector context. In accordance with the financial reporting hierarchy, the FReM allows reference to IPSAS in the absence of guidance from IFRS.</p> <p>The main difference from the current FReM are in relation to the timing of asset recognition and accounting for those arrangements where the operator is compensated not by a payment but by the grant of a right to charge users of the asset. The application is subject to further review by HM Treasury and the other Relevant Authorities before due process consultation.</p>

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### III. Financial Reporting – Future Developments

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
IAS 17 replacement - leases	Ongoing Review	Subject to consultation when IFRS issued	The proposals will be re-exposed, but are expected to include the abolition of the current operating-finance lease categorisation. Instead, assets and liabilities will be recognised on a 'right of use' basis.	HM Treasury and the Relevant Authorities will review the implications and follow due process.
IAS 18 replacement – Revenue Recognition and Liabilities Recognition	Effective no earlier than 1 January 2015 (as per ED)	Subject to consultation when IFRS issued	<p>Re-issued in November 2011, the Exposure Draft seeks to develop a single conceptual model, and general principles, for determining when revenue should be recognised in the financial statements – replacing IAS 18 and IAS 11.</p> <p><u>The five step model:</u></p> <ol style="list-style-type: none"> <li>1. Identify the contract with a customer</li> <li>2. Identify the separate performance obligations in the contract</li> <li>3. Determine the transaction price</li> <li>4. Allocate the transaction price to the separate performance obligations</li> <li>5. Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol>	Although the exposure draft seems relatively straightforward, and potentially applicable in full (as IAS 11 and 18 currently are), there will need to be due process undertaken to consider the impacts of any final IFRS issued.

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Emissions trading	Ongoing IASB and IPSAS review	Subject to consultation	<p>Emissions trading schemes are designed to achieve a reduction of greenhouse gases through the use of tradable emission permits.</p> <p>This IASB project is paused until the Board concludes its ongoing deliberations about its future work plan</p>	<p>The Carbon Reduction Commitment (CRC) will need to be accounted for (probably as intangible assets, revalued accordingly) before any standard is issued.</p> <p>HM Treasury will to issue CRC guidance and consult on other accounting changes accordingly.</p>
IASB Practice Statement – Narrative reporting	Not mandatory		The proposals draw upon international best practice in the preparation and presentation of management commentary. Although non-mandatory, guidance will improve the consistency and the comparability of management commentary across jurisdictions.	Potential impact on Management commentary and Annual Report

HM Treasury

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