



HM TREASURY

Financial Reporting Advisory Board Paper

Minutes of the 134th FRAB meeting and matters arising

Issue:	For information - minutes of the last 134 th FRAB meeting held on 22 nd November 2018 and matters arising.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Alignment with National Accounts	N/A
Impact on budgets/Estimates?	N/A
Recommendation:	The Board has already approved the minutes of the 134 th meeting by email but to note the matters arising.
Timing:	N/A

Detail

1. To note the minutes of the 134th FRAB meeting which were circulated and approved by email after the meeting (Annex A).
2. Matters arising are noted below:

Matters arising

Paragraph	Issue	Action
9	IFRS16 - To provide the Board with an update on the implementation of IFRS 16 and work plan with the ONS	See agenda item XX
16	IFRS16 - To provide the Board with an update on the aligning the IFRS16 measurement methodology with that proposed by CIPFA/LASAAC	See agenda item XX
22	FReM – To recirculate the 2018-19 FReM for Board consideration following discussion of proposed amendments in respect of IFRS 9 and IFRS 15	Done – FReM recirculated and agreed by the Board prior to publication in December 2018
27	CIPFA Code – To recirculate the 2019-20 Code to the Board for consideration following discussion of proposed amendments	Done – the Code was recirculated and agreed by the Board in March 2019
30	DoHSC Group Accounting Manual 2019-20 – To recirculate the GAM to the Board for consideration following amendments as a result of further FReM updates	To be considered by a FRAB subgroup in early April 2019
35 & 49	Government Financial Reporting Review – To provide the Board with an update on the outcome of the Review and response to the Public Administration and Constitutional Affairs Committee	See agenda item XX
50	FRC – Anthony Appleton kindly agreed to provide an update on the FRC review to the Board	See agenda item XX
51	Forward work programme – The Board requested that an update is provided at the November 2019 meeting on the post implementation review of IFRS 9 & IFRS15	Added to the forward work programme – see paper FRAB 135 (XX)

Annex A

Minutes of FRAB Meeting Held on Thursday 22nd of November 2018 At HM Treasury

Present:

Ian Mackintosh (Chair)	Iain King
David Aldous	Fiona Kordiak
Richard Barker	Joseph McLachlan
Pam Beadman	Andrea Pryde
Andrew Buchanan	Ian Ratcliffe
Gareth Caller	Bob Richards
Gawain Evans	Vicky Rock
Karl Havers	Stuart Stevenson
Larry Honeysett	Ian Webber

On the Phone: Anthony Appleton, Sarah Sheen, Chris Young

Secretariat: Vikki Lewis

Invitees: Gareth Davies, Andrew Watchman

Apologies: Craig Mackinlay MP, Aileen Wright

Agenda Items:

1. Minutes and matters arising
2. IFRS16 Leases update
3. Financial Reporting Manual 2018-19 & 2019-20
4. CIPFA/LASAAC Local Authority Code 2019-20
5. Local government update
6. Department of Health and Social Care Manual 2019-20
7. Presentation by Andrew Watchman, EFRAG
8. Government Financial Reporting Review update
9. NAO update
10. IFRS17 Insurance Contracts – Implementation update
11. IFRIC update
12. FRAB Annual Report
13. FRAB forward work programme
14. AOB

Item 1: Minutes and matters arising:

1. The Chair welcomed members to the meeting. The Board discussed the minutes to the previous meeting (14 June 2018), which were agreed with no further comments. Matters arising were due to be covered in the IFRS16 Leases update and the Annual Reports and Accounts Review update later in the agenda.

Item 1 A: Discount rates

2. The Chair agreed that the update on discount rates is brought forward to the beginning of the meeting, before the discussion on leases.
3. The Treasury confirmed the application guidance for the new discount rate methodology was ready for publication and gave appreciation for the role the NAO and government departments have taken in supporting the project. The Treasury thanked the Board for all the input it has given into this project and confirmed that the PES paper would be published in December 2018.
4. The Board received confirmation from the Treasury that the change to apply nominal discount rates had been communicated to departments as early as December 2017 and that issuing a PES paper in December 2018 with the discount rate in is in line with usual practice. The Board was satisfied that this should have no undue effect on preparers in terms of the 2018/19 Supplementary Estimates round.

Item 2: IFRS 16 Leases update

5. The Treasury provided an update on the progress of the IFRS 16 implementation plan and confirmed that the draft application guidance is now ready, subject to any issues to consider arising from the Board's discussion today. The Treasury also thanked the Board for member engagement with the out of meeting material that had been circulated. The Treasury requested that the Board give a recommendation on four key points concerning IFRS 16 implementation.
6. Firstly, the Treasury asked the Board to agree a one-year only deferral for the implementation of IFRS 16, until 1 April 2020. The Treasury explained that the primary reason for deferral is due to budgetary considerations. More time is needed to finalise a budgeting treatment that sufficiently meets the Office of National Statistics (ONS) data requirements for the national accounts and that maintains the alignment between accounts and budgets, consistent with the principle of Clear Line of Sight.
7. The Board discussed the potential deferral and sought assurance that the one-year deferral period would be sufficient to resolve the misalignment issue and that the period should not be extended.
8. The Treasury gave an overview of the joint work plan between themselves and the ONS which seeks to resolve the misalignment between accounts, budgets and national accounts. The Treasury also confirmed that the deferral is strictly limited to one year.
9. The Board agreed with the recommendation to defer IFRS 16 implementation for one-year only until 1 April 2020, and requested the Treasury provide an update at the March 2019 Board meeting on how work is progressing with the ONS. The Board again stressed that the deferral should be limited to one year only.
10. Secondly, the Treasury asked the Board whether it would approve early adoption of IFRS 16 in 2018-19, subject to meeting a strict set of criteria which are expected to be met by a very limited number of bodies. The Board discussed the merit of the criteria and whether this could cause issues for the information provided to produce the Whole of Government Accounts and for ONS data. The Treasury confirmed that any entity that met these criteria would have to provide supplementary disclosures for WGA purposes. A central adjustment will be made to provide the ONS with IAS 17 information; this adjustment has been agreed with the ONS.
11. The Board also discussed the potential fiscal risk of allowing any early adoption to go ahead. HM Treasury confirmed that it understood there was a fiscal risk, but there could be a greater risk of not allowing early adoption in these specific scenarios.

12. Board members also had concerns that early adoption undermines the arguments for deferral that were made earlier and questioned why the departments set for early adoption could not just provide IAS 17 information. The Treasury explained that preparers had made representations that this level of dual reporting would be extremely onerous and could impact adversely on the timeliness and quality of financial reporting.
13. After much discussion, the Board agreed for early adoption to be permitted if the criteria were met.
14. Thirdly, the Treasury proposed a number of adaptations and interpretations to IFRS 16, and particularly wanted the Board's feedback on the subsequent measurement of a right of use asset. The Treasury proposed that the cost measurement methodology should be mandated in the FReM, as the cost of revaluing right of use assets could likely be significant, and could outweigh the benefits of revaluation.
15. The Board discussed the merits of mandating the cost methodology and raised concerns about assets that could be significantly undervalued using the cost method. The Board also raised concerns about comparability between owned and leased assets, among leased assets, and across government. The Board also debated the alternative methodology tentatively agreed by CIPFA/LASAAC.
16. The Board did not agree with mandating the cost methodology for the subsequent measurement of right of use assets and asked the Treasury to work with CIPFA, as the secretariat to CIPFA/LASAAC, on aligning the measurement methodology, and to come back to the March meeting with an update. The Board acknowledged the impact this would have on delaying publication of the application guidance and recommended that it be published with a reference to subsequent measurement guidance being updated once agreed.
17. The fourth and final point for discussion by the Board related to peppercorn leases and whether the definition should include no consideration leases or just leases under market value. The Board approved the recommended approach in the paper.

Item 3: Financial Reporting Manual 2018-19 & 2019-20

18. The Treasury presented the updated FReM and illustrative statements for application from 2018-19 for the Board to consider. Amendments had been made to provide further clarity and to include a reference to the Trade Union Facility Time disclosure requirement as well as some amendments to IFRS adaptations. The Treasury also presented the 2019-20 FReM and illustrative statements.

19. The Board requested some minor amendments to the language referring to GDPR in the FReM and asked for amendments to references to the Conceptual Framework across relevant authorities, noting that it is not possible to adopt early the new framework.
20. In particular, Board members noted a discrepancy between the CIPFA/LASAAC Code, the NHS General Accounting Manual (GAM), and the FReM in references to the Conceptual Framework and asked for greater consistency.
21. The Board discussed two proposed amendments to IFRS 9 and IFRS 15. The Board requested that the Treasury revisit the proposed amendment to IFRS 9, including assessing any unintended consequences, and whether IFRS 7 and IAS 32 should also be referred to when discussing contracts. The Board requested that the Treasury made the language in the proposed amendment to IFRS 15 more succinct to ensure clarity for the user.
22. The Board requested for the FReM to be recirculated to Members once these changes had been made.

Item 4 and 5: CIPFA/LASAAC Local Authority Code 2019-20 and local government update

23. Following the one-year deferral of IFRS 16 approved during agenda item 2 of this meeting, CIPFA/LASAAC agreed to follow the deferral approach so that local government accounting would be in-line with the rest of the public sector and to ease the WGA reporting requirements.
24. CIPFA/LASAAC presented the Code of Practice for 2019-20 to the Board. The Board raised a query over the IFRS 16 subsequent measurement proposals for right-of-use assets. The Board expressed concern over different valuation methods in the FReM and Code and whether this could create an audit qualification for the WGA. The Board recommended that CIPFA/LAAAC and the Treasury work together on determining a valuation model for leases. CIPFA/LASAAC also agreed to align the wording in the Code to the FReM in respect of peppercorn leases.
25. The Board queried why there was a difference in the transitional arrangements for IFRS 16 between the Code and the FReM regarding the use of hindsight in determining the lease term. The Board requested CIPFA/LASAAC review this divergence from the FReM. The Board reiterated that they would not wish to see any new divergences between the Code and the FReM without very good reason.
26. The Board also discussed the terminology used around the Conceptual Framework and reminded the Relevant Authorities that the publication of a new Conceptual

Framework does not result in obsolescence of the existing one. CIPFA/LASAAC agreed to review the wording in relation to the Conceptual Framework.

27. The Board requested CIPFA/LASAAC recirculate the Code for approval as an out of meeting paper once changes had been made.

Item 6: Department of Health and Social Care Manual 2019-20

28. The Department of Health and Social Care (DHSC) presented the 2019-20 GAM to the Board, highlighting the changes that had been made since last year's manual and confirmed to the Board the majority of the changes were to enable closer alignment with the FReM.
29. The DHSC highlighted the references to IFRS 16 in the 2019-20 GAM and agreed with the Board that these would be removed due to the deferral of the implementation date of the Standard. The Board also recommended that DHSC continue to engage with preparers, sharing draft requirements and guidance on the implementation of IFRS 16 early, to ensure the sector is ready for implementation.
30. The DHSC informed the Board that the GAM will be amended to reflect any additional updates to the FReM and agreed with the Board it would then be recirculated for Board approval.

Item 7: Presentation by Andrew Watchman, European Financial Reporting Advisory Group (EFRAG)

31. The Board warmly welcomed Andrew Watchman, EFRAG TEG Chair and CEO, who gave a presentation on the developments within EFRAG. Andrew highlighted the role EFRAG has played in the developments of IFRS and the ongoing discussions happening around IFRS 9, IFRS 15 and IFRS 16. He also updated the Board on a discussion paper on research and development and non-exchange transactions that EFRAG would be publishing soon for consultation.
32. Andrew highlighted the role of EFRAG in the EU context as being an advisory body, rather than a decision-making body, and informed the Board that one of the aims for EFRAG was to pull together views across Europe on accounting standards so there is a consistent European view on IFRS application.
33. Andrew also reminded the Board that the potential deferral of IFRS 17 may mean this accountancy standard would be one that the UK would have to endorse themselves, rather than as part of the EU. The technical ability across different boards involved in accountancy standards was discussed by Andrew and the Board, and the Board thanked Andrew for his very insightful update.

Item 8: Government Financial Reporting Review

34. The Board received a brief update from the Treasury on the Annual Report and Accounts review. The Board asked about the membership of the Advisory Board and whether it relates to all public sector stakeholders such as local authority members. The Treasury confirmed that the review includes liaising with a number of different individuals outside the Advisory Board including CIPFA/LASAAC, though the focus of the review is on central government reporting.
35. The Board was keen to understand the scope of the review, particularly as to whether it is focussed on the content and quality of Annual Reports and Accounts, as well as the various sources of guidance in Government. The Treasury confirmed that the outcome of the review would be a report, which would attempt to set out the government financial reporting landscape, as well as outlining the principles of financial reporting. The Treasury confirmed that they would provide a further update to the Board at the next meeting.

Item 9: NAO Update

36. David Aldous updated the Board on reflections from the audits of 2017-18 central government and other public bodies' annual reports and accounts. He noted that 321 central government and other bodies' accounts had been laid pre-recess, out of around 370 accounts audited by the NAO in total, a significant achievement by preparers of accounts and audit teams, especially as some accounts are in any case published to a later timetable. There was no increase in the number of qualifications of the true and fair opinion, and progress had been made to eliminate a previous qualification relating to the recognition and measurement of academy schools' property assets. The publication of the Consolidated Annual Report and Accounts for the Academy Schools Sector in England was a notable achievement.
37. David also highlighted that in general the local government sector in England had successfully brought forward the reporting timetable by two months. Looking across local public bodies in England, there had not been any qualifications of the true and fair opinion although a small number of local government opinions remain outstanding. The NAO will shortly be publishing its first report summarising key themes emerging from audits across the local authority and health sector. This report will add to the suite of other NAO reports on local services, including those on financial sustainability and the governance and accountability of local government.
38. David reminded the Board that in previous updates he had highlighted the challenges arising from so many central government accounts being finalised towards the end of the timetable which puts pressure on preparers as well as audit teams. The collaborative efforts to improve project management of the accounts

closedown and audit process, including the support to this provided by the Finance Leadership Group, remain important.

Item 10: IFRS17 Insurance Contracts – Implementation update

39. The Treasury provided an update to the Board on the work plan for the implementation of IFRS 17. The proposal follows a similar workplan to that for IFRS 16, which will bring together a technical working group. The Board input was requested to the Exposure Draft and application guidance later in the implementation plan timetable.
40. The Treasury highlighted that the proposal to delay the effective date to 2022 by the IASB is not finalised and open for public consultation, so stressed the need for the work plan to be flexible.
41. The Board discussed the potential issues around the uncertainty of the implementation date and final wording of the Standard, but stressed to the Relevant Authorities the need for early preparation for implementation of IFRS 17. The Board also discussed the potential for IFRS 17 to impact contracts or financial instruments currently recognised under other accounting standards and the importance of maintaining consistency across the standards.
42. The Board raised the importance of reading through the Standard thoroughly to ensure language nuances are identified.

Item 11: IFRIC Update

43. Andrew Buchanan gave the Board an update on the work of IFRIC, in particular highlighting ongoing work in respect of three recently adopted standards. Andrew highlighted relevant recent decisions, including on the application of IFRS 15, IAS 37 and IAS 23. Andrew also informed the Board on the discussion IFRIC have had on IFRS 16 and the implications for corporate entities and deferred tax.
44. Andrew outlined discussions that have been ongoing around IFRS 9, in particular how to treat the change in expected credit loss on interest-bearing assets which were in Stage 3 of the expected credit loss model and have now moved back into Stage 2 of the expected credit loss model.

Item 12 FRAB Annual Report

45. The Treasury presented the revised draft 2017-18 FRAB Annual Report to the Board, providing a summary of the changes made following feedback received by the Board at the June meeting.

46. The Board suggested some minor changes to the report, including some wording around IFRS 16, and agreed that the report should be laid before Parliament once these changes had been made.
47. The Board suggested that in future, it would be useful to set out the tenure of each Board member within the report.

Item 13: FRAB forward work programme

48. The Secretariat asked for suggestions on the forward plan.
49. The Board requested that the Treasury give an update on the Government Financial Reporting Review in the March 2019 meeting.
50. The Board also requested an update on the FRC review for the private sector, including any potential challenges this could have on the public sector. Anthony Appleton kindly agreed to provide this review at a future meeting.
51. The Board requested a further update on the impact of the implementation of IFRS 9 and IFRS 15 and the Treasury confirmed a post implementation review is planned in 2019. The findings of this could be presented at the November 2019 meeting.

Item 14: AOB

52. The Secretariat informed the Board that the updated Terms of Reference had now been published online.
53. The Secretariat also informed the Board of the re-establishment of the Relevant Authorities sub group of FRAB.
54. The Chair announced his return to Australia and as a result announced he will be stepping down as Chair of the Board after the March 2019 meeting.