

## **Amendments to the 2014-15 Financial Reporting Manual (FReM) – published December 2014**

1. Minor changes and corrections have been made to the 2014-15 FReM.
2. Two more substantive changes relate to the disclosures for financial instruments. In response to PAC recommendations following a hearing regarding the NAO's report, Managing debt owed to central government, HM Treasury gave a commitment to encourage reporting entities to disclose more under the current credit risk disclosure requirements (IFRS 7) than they do. This would be encouraged through engaging with departments to promote best practice on reporting of debt in accounts where it is material and incorporating such a requirement within the next version of the Financial Reporting Manual being 2014-15 due to be issued in December 2014.
3. The other amendment relating to IFRS 7 includes the requirement to retain 2011 disclosures in respect of valuation techniques to determine fair value. These disclosures were relocated from IFRS7 to IFRS13 following its introduction in 2011. As IFRS 13 is not yet adopted in 2014-15, the original disclosures should remain. From 2015-16, IFRS13 will apply in full.
4. The affected paragraphs are:

<b>Paragraph</b>	<b>Change</b>	<b>Reason for change</b>
5.4.7	Statement that ALBs which are companies may make use of the exemption available under section 408 of Chapter 4 of Part 15 of the Companies Act to omit the company's individual profit and loss account and only report the group profit and loss account if the conditions in section 408 are met.	Clarification of existing practice.

<b>Paragraph</b>	<b>Change</b>	<b>Reason for change</b>
Table 6.2 IFRS 7	Inclusion of requirement to retain IFRS 7 disclosures (now deleted in the Standard) of valuation techniques to determine fair value of financial instruments.  Where exposed to material financial risk, additional emphasis highlighted for entities to consider the relevant disclosures for significant credit risk of receivables.	In May 2011 The IASB relocated the disclosures about fair value measurements to IFRS 13 Fair Value Measurement. IFRS 13 not yet in effect for the public sector leaving a gap in disclosures until it is adopted in 15-16.  In response to PAC recommendations that some departments should disclose more under the credit risk disclosure requirements than they do currently.
Table 6.2 IAS 16	Cross references changed.	Correction.
Table 6.2 IAS 19 – Interpretations	Cross references changed.	Correction.
Table 6.2 IAS 37	Reinstatement of guidance on separate disclosure of information about contingencies with security markings.	Correction of missing guidance, no change from 2013-14 FReM.
7.1.20	Cross references changed.	Correction.
7.4.1 to 7.4.5	Reinstatement of guidance on inventories not adequately covered by IAS 2.	Correction of missing guidance, no change from 2013-14 FReM.
Annex 3 Differences between budgets and accounts	Removal of reference to ESA95 and replaced with ESA10.	The revised international standard for the UK National Accounts, ESA10, came into effect in September 2014, replacing the previous guidance of ESA95.

### **Earlier amendments to the 2014-15 FReM – published December 2013**

1. HM Treasury reviewed the form and content of the FReM and introduced a new format for 2014-15. The aims of this different format were:

- To make it easier for preparers to identify all relevant adaptations and interpretations by referring to one chapter;
  - To improve the internal consistency of the document by explaining each adaptation and interpretation only once;
  - To make it clearer to preparers which standards have been adopted and should be applied; and
  - To shorten the FReM by removing text which duplicates accounting standards.
2. The areas of most significant presentational change were from chapters 6 onwards. Chapter 6 provides a summary of each accounting standard and whether it has been adapted or interpreted. Additional, slimmed-down, guidance follows in chapters 7, 8 and 9. Chapter 10 provides guidance for the Whole of Government Accounts.
3. Other changes to the Manual previously published, which do not relate solely to presentation, are detailed below:

<b>14-15 FReM Paragraph</b>	<b>Change</b>	<b>Reason for change</b>
Throughout	References to non-departmental public bodies or NDPBs updated to arm's length bodies or ALBs.	To cover all bodies within a departmental group.
Throughout	References to 'appropriations in aid' and 'request for resources' removed.	To align with Consolidated Budgeting Guidance on recording of income in the Statement of Parliamentary Supply.
1.2.1(c)	Additional reference to materiality added.	To clarify that preparers do not need to develop accounting policies, or provide disclosures, in relation to accounting standards that are immaterial.
1.3.1, 1.3.2, 1.3.5, Annex 3	Additional reference to Consolidated Budgeting Guidance added, including a new annex on the main differences between budgets and accounts.	To improve guidance on budgetary controls and potential areas of misalignment.
2.1.4	Language updated to refer to accounts being prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value in accordance with the standards.	To simplify text by not listing individual categories of assets and to capture the valuation of liabilities.
3.2.5	Requirement changed to provide explanation of significant variances on the face of the Statement of Parliamentary Supply to with it.	To allowing flexibility in the location of reporting variances.
3.2.13	i) Introductory text changed to refer	i) Clarify that disclosures required

14-15 FReM Paragraph	Change	Reason for change
	<p>to departments instead of entities.</p> <p>ii) More detailed disclosure requirements for special severance payments (i.e. non-contractual severance payments) introduced.</p>	<p>by Managing Public Money or Managing Public Money Northern Ireland are required by all entities where amounts are over the limits prescribed in those documents.</p> <p>ii) Requested by the Public Accounts Committee and will be consistent with the 2014-15 version of Managing Public Money.</p>
3.3.1	Additional reference to the Supply Estimates Guidance Manual and the Supply Estimates Guidance Manual in Northern Ireland added.	To improve guidance on Supply.
4.1.3	Additional reference to the requirements of the designation order added.	To make it clear that there is legislation setting out which arm's length bodies have to be consolidated.
From 4.1.1 & Table 6.1	Added guidance on applying the new group accounting standards (IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities) added.	To adapt the new Group Accounting to maintain the departmental and WGA accounting boundaries. These standards were EU-adopted for annual periods beginning on or after 1 January 2014.
5.2.27 c)	Text on compensation payments updated to say that the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension.	To reflect existing remuneration report guidance issued by the Cabinet Office.
5.1.8	Guidance that mid-year reporting to Parliament is outside the scope of IAS 34 <i>Interim financial information</i> added.	To provide guidance on mid-year reporting.
5.2.8	Reference changed from OCS to SCNE.	To improve consistency of terminology.
5.2.25	Reference to remuneration report guidance for Westminster departments circulated annually by the Cabinet Office added.	To improve guidance on Cabinet Office requirements.
5.5.6	Guidance added on the audit exemption available to subsidiary companies and a requirement added that entities wishing to apply the exemption to seek approval from the	A new provision (s.479A) was inserted into the Companies Act 2006 (by SI 2012/2301) which allows exemption from audit for subsidiary companies, provided that the parent

14-15 FReM Paragraph	Change	Reason for change
	relevant authority.	company provides a guarantee for the subsidiary's liabilities, and the subsidiary is included in the consolidated accounts of the parent.
Table 6.1	Reference included to IFRS 13 applying prospectively to entities covered by the FReM from 1 April 2015.	To provide information to allow users to prepare for IFRS 13 adoption in 2015-16.
Table 6.2 IAS 39	Reference added that the real discount rate that preparers should apply is the financial instrument discount rate (currently 2.2%).	Clarification of existing guidance as HM Treasury publishes several real discount rates.
Table 6.2 IAS 19	Interpretation deleted which said that Reporting entities cannot elect to use the 'corridor' approach in IAS 19 <i>Employee Benefits</i> .	Interpretation no longer necessary following amendments to IAS 19 <i>Employee Benefits</i> which removes the option of the 'corridor' approach from 2013-14.
Table 6.2 IAS 1	Interpretation deleted which allowed profit on disposal of an asset to be accounted for as negative expenditure to the extent that the profit represents a final adjustment for depreciation.	No interpretation is needed for the accounting for profits on disposal. Departments will follow Consolidated Budgeting Guidance to determine whether the profit can subsequently be spent.
Table 6.2, IAS 36 7.3	Text revised on when impairment losses are recognised in the SoCNE.	To improve internal consistency of FReM guidance on impairments.
9.1.1	Royal Mail Statutory Pension Scheme added to the list of public sector pension schemes.	To reflect pension scheme classification.