HM Treasury review of new IFRS issued and/or effective during the 2013-14 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 2013-14, which could be relevant to organisations preparing accounts under the FReM. The details are provided in three sections:

I. Standards that are effective for the first time in 2013-14: providing a high level assessment of the impact on reporting entities. Entities should consider the impact and apply any necessary changes to 2013-14 annual accounts accordingly. These have been incorporated into the 2013-14 FReM, with amendments made where the standard has been interpreted or adapted for the public sector context. A link is provided to all FReM guidance, including amendment records, published for 2013-14 and 2014-15.

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 2013-14 for the first time

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)* (amendment)	1 July 2012	2013-14	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 amendments interpreted for terminology and adapted (requiring a single Statement of Comprehensive Net Expenditure rather than separate Other Comprehensive Expenditure, unless agreed by the Relevant Authority) for the public sector context is effective from 1 April 2013.
IAS 12 - *Income Taxes* (amendment)	1 January 2012	2013-14	IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale.	There is a potential impact on tax registered arms length bodies with investment properties .
IAS 16 - *Property, Plant and Equipment* (amendment)	1 January 2013	2013-14	Classification of servicing equipment – items such as spare parts, stand-by equipment and servicing equipment are recognised under IAS 16 when they meet the definition of property, plant or equipment. They are otherwise classified as inventory under IAS 2.	The FReM applies this change in full.
IAS 19 – *Post employment benefits (pensions)* (amendment)	1 January 2013	2013-14	The amended IAS 19 introduces a number of changes including: Recognition – the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the 'corridor approach');	The corridor approach is not permitted by the FReM so the main impact of the change is not relevant. There is an impact on defined benefit pension scheme accounts and other entities

Standard (amendment/ new)	**Effective date – beginning on or after (EU Adopted?)**	**FReM Application?**	**Summary**	**Central Government Impact**
			Presentation – the elimination of options for the presentation of gains and losses relating to those plans; and Disclosures – the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans. 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	consolidating defined benefit schemes due to the new presentation and disclosure requirements. Entities may also be impacted by modifications to accounting for termination benefits.
IAS 32 - *Financial Instruments: Presentation* (amendment)	1 January 2013	2013-14	Tax effect of distribution to holders of equity instruments.	The FReM applies this change in full.
IAS 34 - *Interim Financial Reporting* (amendment)	1 January 2013	2013-14	Interim financial reporting and segment information for total assets and liabilities	The FReM applies this change in full if an entity chooses to prepare interim financial reports.

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)	**IASB effective date – beginning on or after (EU Adopted?)**	**FReM Application?**	**Summary**	**Central Government Impact**
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 (EU adopted, effective from 1 January 2014)	2014-15	IASB have issued new and amended standards that affect the consolidation and reporting of subsidiaries, associates, joint ventures and investment entities: • 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. • 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). • IFRS 12 requires more disclosure of the financial effects on, and risks to, the consolidating entity. • Investment entities. IASB updated the reporting requirements effective on or after 1	Accounting boundaries are adapted in the FReM so that the Westminster departmental accounting boundary is based on ONS control criteria, as designated by Treasury. ALB's apply IFRS in full and their consolidation boundary may change as a result of the new standards. With the continuation of current adaptations, the impact on departments mainly relates to the disclosure requirements under IFRS 12.

Standard (amendment/ new)	IASB effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
			January 2014, providing guidance on exceptions to consolidation. Instead, investment entities (entities whose business purpose is to make investments for capital appreciation and/or investment income) are required to present investments in subsidiaries as a net investment at fair value.	
IFRS 13 – *Fair Value Measurement* (new)	1 January 2013 (EU adopted)	2015-16	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): The standard defines fair value, provides guidance on fair value measurement techniques, and sets out the disclosure requirements. The standard requires fair value be measured using the most reliable data and inputs available to determine the exit price for an asset / liability. This exit price is taken to be the price that two market participants (a buyer and seller) would settle on. To ensure transparency over the differing quality of inputs used to determine fair value, the standard has established a hierarchy for input quality. • Level 1 inputs (highest quality) are published prices available in an active market; • Level 2 inputs are observable data available in a non-active market; and	The application of IFRS 13 is subject to further review by HM Treasury and the other Relevant Authorities following the consultation which took place in 2013.

Standard (amendment/ new)	IASB effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
			• Level 3 inputs (lowest quality) are all other inputs, which are mostly unobservable. Entities are required to use the most appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input. IFRS 13 requires additional disclosures where level 3 inputs are used to assess fair value, to give readers an understanding	

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*	No target date for IFRS	Subject to consultation when IFRS issued	The current proposals include the elimination of the current operating lease categorisation for virtually all leases except short-term leases. Instead, assets and liabilities will be recognised on a 'right of use' basis. However, the IASB plans to re-deliberate significant issues associated with the exposure draft.	HM Treasury has begun an analysis of the revised exposure draft. HM Treasury and the Relevant Authorities will review the implications and follow due process once there is a final standard.
IAS 18 replacement – *Revenue Recognition and Liabilities Recognition*	Effective no earlier than 1 January 2015 (as per exposure draft)	Subject to consultation when IFRS issued (2014)	Re-issued in November 2011, the Exposure Draft sought 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. The five step model: 1. Identify the contract with a customer 2. Identify the separate performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the separate performance obligations 5. Recognise revenue when (or as) the entity satisfies a performance obligation	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 impact of the final IFRS once issued.

IFRS 9 – *Financial Instruments* (new)	No mandatory effective date (not yet EU adopted)	Subject to consultation	The project has three phases. Phase 1 addresses classification and measurement issues. Phase 2 addresses impairments – in particular how impairments of financial assets should be calculated and recorded. 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.	There are likely to be elements of the final proposals that will require further review by HM Treasury and the other relevant authorities before due process and consultation. However, this due process cannot commence until a final IFRS has been issued.