HM TREASURY

FRAB (131) 01
16 NOVEMBER 2017

Financial Reporting Advisory Board Paper

Government Financial Reporting Manual (FReM) and Illustrative Statements for 2018-19 and in year amendments for 2017-18

Issue:	HM Treasury requests that the FRAB agrees to the publication of the 2018-19 FReM and Illustrative Statements, and an update to the 2017-18 FReM and Illustrative Statements. This paper also summarises the major and minor amendments to IFRS applicable for 2017-18 and 2018-19.
Impact on guidance:	The FReM and Illustrative Statements have been updated for application from 2017-18. Amendments have been made for minor corrections, to improve clarity and to reflect the introduction of Non-Financial Reporting Regulations. The 2018-19 FReM has been updated following the introduction of IFRS 9 and IFRS 15 in the public sector.
IAS/IFRS adaptation or interpretations for the public-sector context?	Yes – the 2018-19 FReM introduces new interpretations and adaptations for the public-sector context for IFRS 9 and IFRS 15.
Impact on WGA?	Yes – WGA will be expected to incorporate the changes made in accounting standards within the Whole of Government Accounts.
IPSAS compliant?	No. IPSASB has not concluded its work on revenue or financial instruments which will propose changes to the relevant IPSAS.
Impact on Estimates/budgetary regime?	Yes – IFRS 9 is likely to have AME implications for departments with financial instruments subject to impairment accounting, and DEL impacts for departments originating debt instruments. The Consolidated Budgeting Guidance is being updated and will be published following a consultation with departments and approval by the Chief Secretary to the Treasury.
Alignment with National Accounts	No alignment issues have been identified. IFRS 9 and IFRS 15 are broadly consistent with the National Accounts.
Recommendation:	That FRAB notes the proposed amendments to the FReM and illustrative statements for 2018-19 and 2017-18, and agrees their publication.
Timing:	The updated Manuals will be published in December 2017.

DETAIL

Background

1. The Memorandum of Understanding between the Relevant Authorities for developing financial reporting guidance for the public sector requires that the version of the FReM for financial year 2018-19 is available to users by 1 January 2018. This paper requests that the Board notes the proposed amendments to the FReM for 2018-19 and agrees to their publication.

2. In-year changes are proposed for the 2017-18 FReM and illustrative statements for minor corrections, to improve clarity and to reflect the introduction of Non-Financial Reporting Regulations 2016. This paper requests that the Board notes the proposed amendments to the FReM for 2017-18 and agrees to their publication.

3. This paper also summarises the major and minor amendments to IFRS applicable for reporting periods starting from 1 January 2017 or 1 January 2018.

Amendments to the 2017-18 FReM and illustrative statements

4. Minor changes and corrections are proposed to the 2017-18 FReM as well as additional narrative to ensure compliance with the Non-Financial Reporting Regulations. The proposed amendments to the FReM and illustrative statements are summarised at Annex B.

5. Key elements of the Non-Financial Reporting Regulations 2016 (SI 2016/1245) which implement the EU Non-Financial Reporting Directive (2014/95/EU) for financial years beginning on or after 1 January 2017, have been incorporated into the FReM to enhance the extent of non-financial reporting in the public sector and align with changes in corporate reporting. These include:

6. Within the Performance report:

- The statement of the purpose and activities of the organisation to contain additional narrative including a brief description of the business model and environment, organisational structure, objectives and strategies (Overview section);
- Strengthen sustainability reporting to provide information on environmental matters including the impact of the entity's business on the environment;
- Inclusion of non-financial information in respect of social matters, respect for human rights, anti-corruption and anti-bribery matters;

7. Within the Staff Report:

- Supplement with information pertaining to employee matters such as other diversity issues and equal treatment in employment and occupation not already covered by existing requirements, employment issues, health and safety at work, trade union relationships and human capital management.

8. Requirements to strengthen the linkages between KPIs, risks and uncertainty and different pieces of information within ARAs have also been added.

9. The final version of the 2017-18 FReM and Illustrative Statements are included at Annex E.

Amendments to the 2018-19 FReM and Illustrative Statements

10. Amendments have been made to the 2018-19 FReM and Illustrative Statements primarily for the introduction of IFRS 9 and IFRS 15 in the public sector. The proposed amendments are summarised in Annex C.

11. The FReM and Illustrative Statements for 2018-19 are included at Annex G.

Amendments to IFRS

Minor amendments

12.The IASB has issued seven amendments to IFRS made up of narrow scope amendments, changes through the annual improvement cycle 2014-2016 and disclosure initiative. There is also one new Interpretation. Annex A provides a summary of the amendments. Overall, no significant public sector issues have been identified from introducing these amendments.

13. None of the amendments have been adopted by the European Union, though adoption Is expected by Q4 2017 or Q1 2018. Considering the delay in the EU adopting the amendments that would normally have been applicable for 2017-18, HM Treasury is proposing to introduce all amendments in the 2018-19 FReM, with early application permitted in 2017-18 for those entities that wish to include the requirements. The changes in these amendments are not considered to be material across the public sector and therefore should not affect the preparation of group accounts if some entities decide to early adopt.

14. Does the Board agree with the proposed approach to adopt all amendments in the 2018-19 FReM, with early application permitted in 2017-18 (subject to EU adoption)?

Major amendments

15. **IFRS 4** - The IASB issued amendments to IFRS 4 to address the temporary consequences of the different effective dates of IFRS 9 Financial Instruments (1 January 2018) and IFRS 17, the new insurance contracts Standard (1 January 2021). The Board has already agreed to adopt the amendments without adaptation or interpretation, subject to EU adoption (FRAB 129). EU adoption is expected to be received in Q4 2017 and therefore on that basis, this amendment has been included in the 2018-19 FReM.

16. **IFRS 9 –** IFRS 9 is effective in the public sector from 1 April 2018-19. IFRS 9 has been adopted by the EU. A narrow-scope amendment[1] to the standard was issued by the IASB in October 2017 and EU adoption of the amendment is expected in 2018. HM Treasury will review the amendment nearer to the endorsement date and will flag any material issues to the FRAB when the final version of the 2018-19 FReM is submitted to the Board before publication.

[1] Prepayment Features with Negative Compensation: http://www.ifrs.org/news-and-events/2017/10/international-accounting-standards-board-issues-narrow-scope-amendments-to-ifrs-9-and-ias-28/

17. The Board has previously agreed the following interpretations and adaptations to IFRS 9:

Adaptations	1) Balances with core central government departments (including their Executive Agencies), the Government's Exchequer Funds[2], and the Bank of England are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by guarantee given by their parent department 2) Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.
Interpretations	1) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authority. 2) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position. 3) PDC should be reported at historical cost, less any impairment. 4) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices. 5) The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. 6) The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime Expected Credit Losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets. 7) The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk).

[2] Government's Exchequer Funds include: The National Loans Fund; all Consolidated Funds; the Contingencies Fund; the Exchange Equalisation Account; the Debt Management Account; the Public Works Loan Board; and Commissioners for the Reduction of the National Debt.

18. Application guidance has been prepared to assist entities in their implementation of IFRS 9. The Board have already reviewed a draft version of the guidance (FRAB 130) and the final version has been included for the Board's reference (Annex H).

19. **IFRS 15 –** IFRS 15 is effective in the public sector from 1 April 2018. IFRS 15 (and the effective date amendment) has been adopted by the EU with *Clarifications to IFRS 15* expected to be adopted in Q4 2017. The 2018-19 FReM has been prepared on the basis that the *Clarifications to IFRS 15* have been adopted by the EU.

20. The Board has previously agreed the following adaptions and interpretations of IFRS 15:

Adaptations	1) The definition of a contract is expanded to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94). 2) Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be accounted for under IFRS 15 (15a).
Interpretations	Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach: • The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised. • The practical expedient available for contract modifications (C7A) should be exercised.

21. Application guidance has been prepared to assist entities in their implementation, focusing on the public-sector adaptations and interpretations and the disclosure requirements. The application guidance does not seek to duplicate the extensive guidance and examples already provided within IFRS 15 (Annex I).

Recommendation

23. The Board is requested to consider the proposed amendments to both the 2017-18 FReM and 2018-19 FReM and to agree their publication.

HM Treasury
16 November 2017

Annex A – Analysis of Amendments to IFRS

Amendment	IASB Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
None of these amendments are EU adopted at the time of this paper				
IFRIC 22- Foreign Currency Transactions and Advance Consideration (Interpretation)	1 January 2018	1 April 2018 2018-19 FReM EU adoption – Q1 2018	IFRIC 22 provides clarity on what exchange rate is to be used when accounting for foreign transactions. The exchange rate to be used is the one on the date that the transaction is agreed in principle, even if the actual transaction doesn't take place on that date. If there are multiple transactions in advance, the entity shall determine the date the transaction was agreed for each payment. The application of this Interpretation is retrospective or prospective	None noted.
IAS 12- Income Taxes Recognition of deferred tax assets for unrealised losses (Narrow Scope Amendment)	1 January 2017	1 April 2018 2018-19 FReM (early adoption permitted) EU adoption – Q4 2017	The amendments are as follows; • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.	None noted.

Amendment	IASB Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type The application of the amendment is retrospective.	
IFRS 2 Share based payment- classification and measurement of share based payment transactions (Narrow Scope Amendment)	1 January 2018	1 April 2018 2018-19 FReM EU Adoption – Q1 2018	Guidance has been introduced for accounting requirements for cash-settled share based payments that follows the same approach as used for equity-settled share based payments. IASB has introduced an exception into IFRS 2 so that a share based payment where the entity settles the share based payment arrangement net is classified as equity-settled in its entirety provided the share based payment would have been classified as equity-settled had it not included the net settlement feature. The IASB has introduced the following clarifications: • On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date. • Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately The application of this amendment is prospective.	None noted.

Amendment	IASB Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
IAS 7 Statement of Cash Flows- Reconciliation of liabilities arising from financial activities (Disclosure Initiative)	January 2017	1 April 2018 2018-19 FReM (early adoption permitted) EU Adoption – Q4 2017	Additional disclosure requirements were added to IAS 7 to enable users to identify the following changes in liabilities arising from financing activities (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. How this disclosure requirement would be fulfilled is left to each entity, though illustrative disclosures have been added. The application of this amendment is prospective	None noted.
IFRS 1 First time adoption of IFRS (2014- 16 Annual Improvement Cycle)	January 2018	1 April 2018 2018-19 FReM EU Adoption – Q4 2017	IFRS 1 has been amended to remove short-term exemptions dealing with IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IFRS 10 Consolidated Financial Statements. The reliefs provided are no longer applicable and had been available to entities for reporting periods that have now passed. The application of this amendment is prospective	None noted.
IFRS 12 Disclosure of Interests in Other Entities (2014- 16 Annual Improvement Cycle)	January 2017	1 April 2018 2018-19 FReM (early adoption permitted) EU Adoption – Q4 2017	Improvements have been made to clarify the scope of the standard. They stipulate that the disclosure requirements in respect of interests in entities in scope of IFRS 5 apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations. The amendments specifically clarify that entities are not exempt from the entirety of the disclosure requirements in IFRS 12 when they have been classified as held for sale or as discontinued operations. The amended standard makes it clear that it is only the disclosure requirements set out in paragraphs B10 – 16 that do not need to be provided for entities within the scope of IFRS 5. The application of the amendment is retrospective	None noted.

Amendment	IASB Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
IAS 28 Investments in Associates and Joint Ventures (2014- 16 Annual Improvement Cycle)	January 2018	1 April 2018 2018-19 FReM EU Adoption – Q4 2017	IAS 28 has been amended to clarify that the election to measure at fair value through profit or loss an investment in an associate (or a joint venture) that is held by an entity that is a venture capital organisation (or other qualifying entity*) is available on an investment by investment basis. The amendment also clarifies that the method chosen for each investment is to be made on initial recognition. *Other qualifying entities include mutual funds, unit trusts and similar entities (including investment-linked insurance funds). The application of the amendment is retrospective.	None noted.
IAS 40 Investment Properties – Transfer of investment properties	January 2018	1 April 2018 2018-19 FReM EU Adoption – Q1 2018	IAS 40 has been amended to reinforce the principle for transfers into, or out of, investment property to specify that such a transfer should only be made when there has been a change in use of the property. The list of evidence to be used to consider such assessment was revised from being an exhaustive to a non-exhaustive list. The application of the amendment is prospective though retrospective application is permitted without the use of hindsight.	None noted

Annex B: In-year amendments to the 2017-18 Government Financial Reporting Manual (FReM)

Amendments have been made to the 2017-18 FReM and illustrative statements to correct minor errors and provide clarifications to improve disclosure requirements and the introduction of the Non-Financial Reporting Regulations.

Paragraph	Change	Reason for change
Throughout	Minor grammatical errors	
1.1.5	Footnote added: Early application of EU adopted IFRS before the effective date is permitted with the consent of the relevant authority	In certain circumstances, entities may wish to early adopt certain EU adopted IFRS. A footnote has been added to clarify that this is permitted with the consent of the relevant authority.
1.2.1 b)	Footnote added as reference the IFRS Practice Statement 2: Making Materiality Judgements issued by the IASB in September 2017	To reflect release of the new Practice Statement
2.2.8	Deleted paragraph referencing the Disclosure Initiative	Activities of the IASB's disclosure initiative have been subsumed into the relevant accounting standards or are at an early stage in the research/consultation stage process. An explicit reference to the disclosure initiative is no longer required.
5.2.8 bullet point 3	Performance Report - Additional requirement to include a brief description of the business model and environment, organisational structure, objectives and strategies.	To strengthen non-financial reporting for the benefit of users of the accounts and align with the introduction of Non-Financial Reporting Regulations 2016 (SI 2016/1245) which implement the EU Non-Financial Reporting Directive (2014/95/EU) for financial years beginning on or after 1 January 2017.
5.2.10 bullet point 1	Performance Report - Additional requirement to provide explanatory narrative around the link between KPIs, risk and uncertainty.	To strengthen performance reporting.
5.2.10 bullet point 2	Performance Report - Additional requirement to provide an explanation of the relationships and linkages	To strengthen performance reporting.

	between different pieces of information within the ARAs	
5.2.10 bullet point 3	Performance Report - Inclusion of the need to report on non-financial information pertaining to social matters, respect for human rights, anti-corruption and anti-bribery matters.	To strengthen non-financial reporting for the benefit of users of the accounts and align with the introduction of Non-Financial Reporting Regulations 2016 (SI 2016/1245) which implement the EU Non-Financial Reporting Directive (2014/95/EU) for financial years beginning on or after 1 January 2017,
5.2.10 bullet point 4	Performance Report - Additional requirement to provide information on environmental matters including the impact of the entity's business on the environment.	Enhanced reporting on sustainability to strengthen non-financial reporting for the benefit of users of the accounts and align with the introduction of Non-Financial Reporting Regulations 2016 (SI 2016/1245) which implement the EU Non-Financial Reporting Directive (2014/95/EU) for financial years beginning on or after 1 January 2017.
5.3.27	Separate the reference to the guidance from the statement that departments should exclude ALBs from the calculation.	Clarify that the guidance did not only apply to departments.
5.3.28 f)	Staff Report - Additional requirement to provide information on other employee matters such as diversity issues and equal treatment in employment and occupation not already disclosed as well as employment issues, health and safety at work, trade union relationships and human capital management such as carer management and employability.	To strengthen non-financial reporting for the benefit of users of the accounts and align with the introduction of Non-Financial Reporting Regulations 2016 (SI 2016/1245) which implement the EU Non-Financial Reporting Directive (2014/95/EU) for financial years beginning on or after 1 January 2017,
8.1.6 - 8.1.7	Amendments made to the text reference all possible sources of EU income	To address gap in the wording
9.1.1	Alpha Pension Scheme added	New pension scheme
10.2.2 (b)	Revised wording on what information needs to be reported for each operating segment.	Update terminology
10.2.6 (b)	The following line has been deleted: "contributions from employees are to be shown in the financial statements	Following discussions during 2015-16 accounts, it was identified that this adaptation was not appropriate for WGA.

	as a deduction from the current service cost”	By removing this adaptation, WGA will revert back to the requirements of IAS 19.
10.4.3	Wording amended on the governance body for WGA.	WGA advisory group has been disbanded and the governance function is now performed by the HM Treasury Audit Committee. Wording updated to reflect that HMT AC scope goes beyond WGA.
Annex 4	Link to 2016-17 CBG changed to 2017-18 CBG	Updated link
Department Yellow, Agency Pink, NDPB Green	Illustrative disclosure added reconciling liabilities arising from financing activities	Amendments to IAS 7. Illustrative disclosures available for those early adopting in 2017-18
Department Yellow, Agency Pink, NDPB Green	Throughout, additional line items and guidance notes added	To provide additional guidance, improve clarity and consistency emphasising that material transactions and balances should be separately identified in the primary statements and notes

Annex C: Amendments to the 2018-19 Government Financial Reporting Manual (FReM)

Amendments have been made to the 2018-19 FReM and illustrative statements for the introduction of IFRS 9 and IFRS 15 in the public sector,

Paragraph	Change	Reason for change
Table 6.1	Removal of IAS 11, IAS 18 and IAS 39. Replace with IFRS 9 and IFRS 15	Introduction of IFRS 9 and IFRS 15 in the public sector
Table 6.2	Adaptations and Interpretations added for IFRS 9 and IFRS 15	Introduction of IFRS 9 and IFRS 15 in the public sector
Throughout	References to IAS 39 have been replaced with IFRS 9	Introduction of IFRS 9 in the public sector
7.1.62	Replace reference to IAS 18 with IFRS 15	Introduction of IFRS 15 in the public sector
8.1.5	Replace reference to IAS 18 with IFRS 15	Introduction of IFRS 15 in the public sector
8.2.17	Added adaptation reference to IFRS 15	Introduction of IFRS 15 in the public sector
Annex 4	Added weblink to guidance on classifying receipts	Introduction of IFRS 15 in the public sector
Department Yellow, Agency Pink, NDPB Green	Narrative guidance included to support disclosure requirements for IFRS 15.	Introduction of IFRS 15 in the public sector
Department Yellow, Agency Pink, NDPB Green	Removal of "for those early adopting in 2017-18) from the reconciliation of liabilities to financing activities table	Amendments to IAS 7 effective for 2018-19

Please see separate documents for the following annexes:

Annex D – 2017-18 FReM and Illustrative Statements in track changes

Annex E – 2017-18 FReM and Illustrative Statements without track changes

Annex F – 2018-19 FReM and Illustrative Statements in track changes

Annex G – 2018-19 FReM and Illustrative Statements without track changes

Annex H – IFRS 9 Application Guidance

Annex I – IFRS 15 Application Guidance