



## Financial Reporting Advisory Board Paper

### Government Financial Reporting Manual (FReM) for 2014-15

<b>Issue:</b>	HM Treasury has reviewed the FReM to identify whether it could be simplified and improved. Two versions of the FReM are in development for 2014-15, one in an unchanged format and another which makes it easier to identify all interpretations and adaptations relating to a standard. Both versions contain proposed removal of some interpretations and adaptations.
<b>Impact on guidance:</b>	The final version of the 2014-15 FReM and supporting illustrative statements will be presented at the December FRAB meeting.
<b>IAS/IFRS adaptation?</b>	As per other papers and proposed removal of some interpretations and adaptations. The removal of interpretations and adaptations would have been proposed regardless of the change in format.
<b>Impact on WGA?</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>IPSAS compliant?</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>Interpretation for the public sector context?</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>Impact on budgetary regime?</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>Alignment with National Accounts</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>Impact on Estimates?</b>	See FRAB (118) papers 03, 04 and 07 for detail relating to amendments.
<b>Recommendation:</b>	That the FRAB notes the proposed amendments to the FReM and considers the option of changing the format.
<b>Timing:</b>	2014-15

## **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 2014-15 is available to users by 1 January 2014.
2. HM Treasury has prepared two versions of the draft manual for 2014-15. The underlying content of the two versions is the same but one has been restructured so that all interpretations and adaptations are included in one chapter.
3. This paper requests the Board to note the proposed amendments to the FReM for 2014-15. Comments are also welcome on the option of changing the format of the FReM. A final draft FReM and the illustrative statements will be presented at the December meeting.

### **Amendments to the FReM**

4. The following new changes to the FReM are proposed at this meeting, as detailed in the FRAB agenda in respect of:
  - Accounting for subsidiaries, joint arrangements and associates under IFRS – FRAB paper (118) 03 IFRS –Group Accounting Standards refers;
  - Future adoption of IFRS 13 Fair Value – FRAB paper (118) 04 IFRS 13 Fair Value refers;
  - Preparation of a strategic report and other minor changes, under the Companies Act 2006 – FRAB paper (118) 07 Revised Companies Act proposals refers (note that this requires amendment to the 2013-14 FReM for which specific FRAB approval is sought at this meeting).
5. In addition, HM Treasury has reviewed existing interpretations and adaptations throughout the FReM to check whether they continue to be relevant and to check that they are internally consistent within the FReM. We are proposing to remove a number of interpretations and adaptation following this review. These are detailed at Annex A and have been applied using track changes to the FReM in its existing format at Annex B. The most significant changes are:
  - IAS 36 – amendment to clarify an existing adaptation for the definition of impairment losses to be taken through the SoCNE;
  - IAS 38 – delete interpretation around the capitalisation of internally generated assets;
  - IAS 39 – delete interpretation around liabilities under financial guarantee contracts; and
  - IAS 19 – delete interpretation around the use of the corridor approach in IAS 19 Employee Benefits
6. Separately we are also proposing to change the format of the FReM. The aims of this different format are:
  - 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.

The 2014-15 FReM has therefore also been prepared to reflect these objectives and to also reflect the changes proposed in Annex A. A revised FReM in the new format is at Annex C.

### **Summary and recommendation**

7. The Board is requested to consider the proposed amendments to the FReM and to provide views on the option of restructuring the FReM.

**HM Treasury**  
**10 October 2013**

**Annex A**

**Financial Reporting Manual (FReM) – Amendment Record Sheet 2014-15**

<b>Paragraph</b>	<b>Standard</b>	<b>FRAB (Paper)</b>	<b>Title</b>	<b>Reason for change</b>
6.2.2 (new), 6.2.3 (new), 14.2.20	IFRS 13	FRAB(118) 04	IFRS 13 Fair value measurement – response to exposure draft	HM Treasury proposes to adopt IFRS 13 without adaptation from 1 April 2015. The changes proposed provide information to allow users to prepare for IFRS 13 adoption.
5.1.7, 5.2.2, 5.2.5 to 5.2.19, 5.2.22, 5.2.23, 5.2.25, 14.3.1	Companies Act 2006	FRAB(118) 07	Changes to the reporting requirements of the Companies Act 2006 and associated regulations	The Department of Business, Innovation and Skills (BIS) has implemented new legislation that affects aspects of the reporting requirements within the Companies Act 2006. The changes proposed apply to reporting entities covered by the FReM.
4.2.1 to 4.2.9, 4.2.15 (renumbered), 14.2.1, 14.2.4, 14.2.10 (renumbered)	IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28	FRAB(118) 03	IFRS – Group Accounting Standards	<p>The IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities in 2011. These standards, along with amendments made to IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures constitute the Group Accounting Standards, which remove inconsistencies within IFRS. These standards were EU-adopted for annual periods beginning on or after 1 January 2014.</p> <p>Following public consultation, the Treasury is now in a position to recommend the application of the Group Accounting Standards to the FReM with adaptation to maintain the departmental and WGA accounting boundaries.</p>

## FReM review of adaptations and interpretations

Paragraph	Standard	Adaptation or interpretation	Change	Reason for change
5.4.11, 11.2.9	IAS 1	Profit on disposal of an asset can be accounted for as negative expenditure to the extent that the profit represents a final adjustment for depreciation. Where this is not the case, profits should be accounted for as income.	Delete interpretation	<p>Alignment of treatment of profit on disposal of an asset with Consolidated Budgeting Guidance.</p> <p>The existing FReM text is not consistent with changes made to Consolidated Budgeting Guidance relating to the retention of income under Clear Line of Sight. Consolidated Budgeting Guidance limits the level of profit on disposal scoring in resource DEL to a maximum of £20 million, or 5 percent above the net book value of the disposal, whichever is the lower.</p> <p>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.</p>

Paragraph	Standard	Adaptation or interpretation	Change	Reason for change
8.2.3, 8.2.4, 8.2.9 to 8.2.19	IAS 36	Only those impairment losses that do not result from a loss of economic value or service potential should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure.	<p>Remove the reference to service potential.</p> <p>Clarify that only those impairment losses that arise from a clear consumption of economic benefit (including as a result of loss or damage resulting from normal business operations) should be taken to the Statement of Comprehensive Net Expenditure.</p> <p>Align impairment categories and explanations with Consolidated Budgeting Guidance.</p>	<p>The NAO qualified the Ministry of Defence's 2012-13 resource accounts due to a disagreement on how to account for the decrease in value of facilities in Germany. Following announcements that the facilities would be handed back on a phased basis, the NAO and MOD agreed that the carrying value of the assets should be reduced. The MOD and HM Treasury believed that this should be through the revaluation reserve and the NAO believed that it should be an impairment.</p> <p>The current wording in the FReM does not support Treasury's intention which is to ensure that the accounts follow the budgeting guidance. The change aims to clarify existing guidance.</p> <p>The change confirms alignment with Consolidated Budgeting Guidance which says: 'A fall in value relating to a consumption of economic benefit or deterioration in the quality of service provided by the asset should be treated as an impairment'.</p>
7.2.4	IAS 38	An entity adopting the requirements of the FReM for the first time can only use retrospective capitalisation for an internally generated asset where it holds reliable original cost information.	Delete interpretation	<p>The current text does not interpret the standard but instead provides general guidance which would apply to any entity adopting IAS 38 for the first time.</p> <p>As there are increasingly few bodies applying the FReM for the first time it doesn't seem necessary to provide this extra guidance.</p>

Paragraph	Standard	Adaptation or interpretation	Change	Reason for change
9.2.7e	IAS 39	Liabilities under financial guarantee contracts that are not accounted for as insurance contracts should be measured initially at their fair value and, as appropriate, amortised subsequently to the Statement of Comprehensive Net Expenditure or its equivalent. Subsequent changes in probabilities should not be reflected in the carrying value except where the result is that IAS 37 would require recognition of a liability because it is more probable than not that a transfer of resources will occur.	Delete interpretation	The current text does not interpret the standard but instead provides general guidance which would apply to any entity with financial guarantee contracts that are not accounted for as insurance contracts.
1.7.4b	IFRS 1	Reporting entities cannot elect to use the 'corridor' approach in IAS 19 <i>Employee Benefits</i> .	Delete interpretation	Interpretation no longer necessary following amendments to IAS 19 <i>Employee Benefits</i> which removes the option of the 'corridor' approach from 2013-14.

## FReM clarifications, tidy up and corrections

Paragraph	Reason for Change
1.1.4, 1.2.3, 2.1.6, 5.1.1, 5.2.9, 5.2.20e, 6.2.3, 6.2.7b	References to the Manual's dedicated website changed to gov.uk
1.4, 1.4.1, 4.2.2, 5.1.2, 5.2.1, 5.2.4, 5.2.8, 5.2.10 (new), 5.2.18 (new), 5.4.8, 5.4.10, 5.4.13, 5.4.17, 5.4.28, 6.2.71(b), 11.2.7, 11.2.17 (renumbered), 11.5.1	References to non-departmental public bodies or NDPBs updated to arms length bodies or ALBs to cover all bodies within a departmental group
1.7.4, 2.1.4	Clarifying that there are no adaptations to the valuation of inventories within the Manual
3.2.6	Allowing flexibility to allow explanations of variances to be given with the Statement of Parliamentary supply rather than specifying that they must be on the face of the note, which may be impractical
5.1.2, 5.2.4	Specifying which chapters of the Companies Act 2006 apply to entities using the FReM
5.1.8	Departments will be carrying out mid-year reporting to Parliament from 2013-14. The FReM has been updated to note that this mid-year reporting is outside the scope of IAS 24 <i>Interim financial information</i> . Entities choosing to produce interim financial information will continue to apply the standard in full.
5.2.12	Reference corrected from OCS to SCNE
5.2.18	Reference corrected from Part 4 and Schedule 8 of the Companies Act to Part 4 of Schedule 8
5.2.23 (renumbered)	Include reference to remuneration report guidance for Westminster departments circulated annually by the Cabinet Office
5.4.48	Correcting cross-reference
5.5.6 (new)	<p>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 company provides a guarantee for the subsidiary's liabilities, and the subsidiary is included in the consolidated accounts of the parent. This new provision applies to accounts for financial years ending on or after 1st October 2012.</p> <p>The FReM has been updated to note the exemption available and to require entities wishing to apply the exemption to seek approval from the relevant authority.</p> <p>HM Treasury's view on the use of the exemption by government owned companies is that the potential loss of accountability should be considered against materiality and that decisions should therefore be made on a case by case basis.</p>
6.2.8, 6.2.9, 6.2.20, 6.2.32, 6.2.33 (all renumbered)	Standardising references to fair value and reporting date
7.2.6	Correcting cross-reference
9.2.7d	Clarifying that the real discount rate that preparers should apply is the financial instrument discount rate (currently 2.2%) as HM Treasury publishes several real discount rates
10.2.16	Correcting cross-reference
3.2.5, 11.2.8 to 11.2.10, 11.2.13 (renumbered), 11.2.14 (renumbered)	Updating language to remove references to 'appropriations in aid' and 'request for resources' in order to align with Consolidated Budgeting Guidance on recording of income in the Statement of Parliamentary Supply
11.3.7	Correcting cross-reference



<b>Paragraph</b>	<b>Reason for Change</b>
12.1.1	Including Royal Mail Statutory Pension Scheme to the list of public sector pension schemes
14.2.5	Correcting duplicated text