Financial Reporting Advisory Board Paper

Narrow-Scope Amendments

Issue:	The IASB has made a number of narrow-scope amendments which have been approved by the European Union or are currently under consideration for adoption. This paper considers these amendments and their implications for public sector financial reporting.
Impact on guidance:	No impact identified.
IAS/IFRS adaptation?	No
Impact on WGA?	No
IPSAS compliant?	IPSAS work programme expected to address IFRS narrow scope amendments.
Interpretation for the public sector context?	No interpretation required.
Impact on budgetary regime?	None noted
Alignment with National Accounts	No alignment issues identified.
Impact on Estimates?	No
Recommendation:	Note the IASB narrow scope amendments
Timing:	See Annex.

DETAIL

Background

1. The IASB has issued a number of narrow scope amendments which have now been approved by the European Union or are currently under consideration for adoption. The Annex indicates what these amendments are and HM Treasury's initial considerations as to whether there are any public sector specific financial reporting impacts that may require further work to be performed.

2. No further required action has been identified as a result of the amendments considered in this paper except that further work is required to consider the implications of IAS 32 Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities. This further work specifically relates to the Government Banking Service, where HM Treasury has identified a potential problem related to current off-setting arrangements for the presentation of account balances. HM Treasury will update Board members on the results of this further work at the next meeting.

Impact on accounting treatment and disclosures

3. As set out in the Annex, the narrow-scope amendments do potentially have an impact on required accounting treatments and disclosures. While no amendments to the FReM are proposed reporting entities will need to ensure that they are compliant.

IAS/IFRS compliance

4. No adaptations or interpretations have been identified as required.

IPSAS compliance

5. We expect that the narrow-scope IFRS amendments will be incorporated into the IPSAS work plan.

Proposed text for the Government Financial Reporting Manual

6. No amendments to the FReM are proposed.

Impact on the budgetary regime

7. No impact on budgetary control has been identified.

Summary and recommendation

8. The Board is asked to note that a number of narrow scope amendments have been issued by the IASB and that HM Treasury has identified that further work is necessary to assess the impact of changes made to IAS 32 and the consolidation standards.

HM Treasury
24 May 2013

ANNEX

Narrow-scope amendment	Effective date: periods beginning on or after	Summary of changes	Public sector specific reporting issue
IAS 1 Presentation of Financial Statements - Clarification of the requirements for comparative information	1 Jan 2013	An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. In addition, the opening statement of financial position (known as the third balance sheet) must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to accompany the third balance sheet.	None noted
IAS 12 Income Taxes-Deferred Tax: Recovery of Underlying Assets	1 Jan 2013	IAS 12 has been updated to include: • A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and • A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should *always* be measured on a sale basis	None noted
IAS 16 Property, Plant and Equipment	1 Jan 2013	Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. *Property, plant and equipment* are tangible items that:	None noted

		(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.	
IAS 27 (revised), Separate financial statements	1 Jan 2014	The objective of the Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements. Separate financial statements are those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IFRS 9 *Financial Instruments if applied or IAS 39 until then*.	None noted
IAS 28 (revised) Investments in associates and joint ventures	1 Jan 2013	This revised standards requires both joint arrangements (joint ventures) and associates to be accounted for using the equity method of accounting rather than proportionate consolidation.	None noted
IAS 32 Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities	1 Jan 2014	The amendments state that in order for financial assets and liabilities to be offset, all of the following criteria must be met:(a) must not be contingent on a future event; and (b) must be legally enforceable in all of the following circumstances: (i) the normal course of business; (ii) the event of default; and (iii) the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments will have the most significant impact on financial services organisations but there are implications for the public sector too. For instance the current netting off arrangements for accounts held in the Government Banking Service need to be considered further. The Committee will be updated once this work has concluded.	More work required to assess the impact. Board to be updated at next meeting.

IAS 32 Financial Instruments: Presentation	1 Jan 2013	Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders	None noted
IAS 34 Interim Financial Reporting	1 Jan 2013	Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*.	None noted
IFRS 1 First time adoption of IFRSs	1 Jan 2013	Entities that have stopped applying IFRS and are then going to re-apply may choose to either: (i) Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period Or (ii) Apply IFRS retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS.	None noted
IFRS 1 Borrowing Costs	1 Jan 2013	Clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23 *Borrowing Costs*, including those incurred on qualifying assets under construction.	None noted
IFRS 1 First-time adoption of IFRS- Government Loans	1 Jan 2013	First-time adopters of IFRS measure government loans with a below-market rate of interest at fair value on initial recognition in IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs. However, if an entity obtained the information necessary to apply the requirements to a government loan as a result of a past transaction at the time of initially accounting for that loan, then it may choose to apply IAS 20 retrospectively to that loan.	None noted.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jan 2013	There is a new deemed cost exemption for entities that have been subject to severe hyperinflation. First-time adopters with relief from retrospective restatement of derecognition and day one gain or loss transactions, the IASB has issued amendments to remove the fixed dates included in IFRS 1 for such transactions and to replace those dates with the date of transition to IFRS.	None noted
IFRS 7 (amendments) disclosures- Offsetting Financial Assets and Financial Liabilities	1 Jan 2013	Additional disclosure requirements to increase transparency on netting off arrangements for financial instruments.	See IAS 32 Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities
IFRS 10, 11 and 12 (amendments) Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities; Transition Guidance	1 Jan 2014	An entity need only make a retrospective adjustment for the annual period immediately preceding the date of initial application of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* when it is identified changes are required compared to previous accounting standards. When an investor concludes under IFRS 10 that it needs to consolidate an investee that was not previously consolidated, an entity can apply either the earlier or the revised versions of IFRS 3 and IAS 27, as appropriate to its circumstances.	Consolidation decisions may change as a result of IFRS10, 11 and 12 so transition clarifications are relevant. This will be considered as part of the work on consolidation.
IFRS 10, IFRS 12 and IAS 27 (amendments) Investment Entities *****	1 Jan 2014	The standard defines Investment Entities. An investment entity need not present consolidated financial statements and measures all of its subsidiaries at fair value through profit or loss.	This will be considered as part of the work on consolidation.
IFRIC 20 Stripping Costs in the Production Phase of a	1 Jan 2013	The standard requires capitalisation of stripping costs if certain criteria are met rather than allowing a choice of treatment and is more prescriptive on the period the asset is	None noted.

Surface Mine		written off.	

***** Note IFRS 10, IFRS 12 and IAS 27 (amendments) Investment Entities have not yet been endorsed by the European Union.