

MINUTES OF THE 122nd FRAB MEETING HELD ON THURSDAY 27 NOVEMBER 2014 AT CIPFA

Present: Kathryn Cearns (Chairman)

Ron Hodges	Jason Dorsett
Larry Honeysett	Maggie McGhee
Andrew Buchanan	Ross Campbell
David Aldous	Andrew Baigent
David Hobbs	Mike Usher
Gawain Evans	Sir Edward Leigh
Veronica Poole	Bob Branson
Anthony Appleton	

Secretariat: Philip Trotter (Secretary)

Guests: Alison Scott CIPFA, Sarah Sheen CIPFA, Joanne McBurney DFPNI.

1. Apologies were received from Ian Carruthers and Aileen Wright

Item 1: Matters Arising

2. There were no matters arising.

Item 2: IFRS 13 Fair Value (FRAB (122)02)

3. HM Treasury and CIPFA presented this joint paper that provided the Board with an overview of the consultations that took place over the summer on FReM and Code amendments to enable the introduction of IFRS 13 into the manuals in 2015-16.

4. HM Treasury noted that respondents were largely supportive of the FReM proposals but requested clarification on treatment for when an asset is not being used to deliver public services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS 5 criteria. HM Treasury have therefore introduced an additional surplus category under the 'Assets not held for their service potential' valuation basis. This category will effectively be a 'residual' category when an asset does not meet IFRS 5 'Asset Held for Sale' criteria and additionally does not meet the IAS 40 'Investment Property' criteria. Under this category an asset will be measured at fair value using IFRS 13.

5. Queries were also raised about the extent of disclosure requirements under IFRS 13. Rather than adapting the disclosure requirements, HM Treasury is looking to deal with this issue through the Simplification project.

6. One department also raised a conceptual challenge noting that there are some instances where a government body holds an asset or assets to provide services on a commercialised basis, where the services are a means towards the objective of generating cash flows from external customers. In some cases, there may be a long-term strategic objective of ultimately privatising the service, or at least introducing more private-sector disciplines. In such instances, a depreciated replacement cost or

market value for existing use valuation may not provide the best information about whether the service delivery is meeting those objectives.

7. The department, therefore, proposed the following amendment:

“For assets which are held for their service potential, but where the entity’s business model is to hold the assets to generate future inflows of economic benefit, the entity may irrevocably elect to apply IFRS 13 without interpretation.”

8. HM Treasury asked members to comment on the merits of this proposal.

Code consultation

9. CIPFA noted that the responses to the consultation were in the vast majority of cases supportive of the approach to the adoption of IFRS 13 and the measurement of PPE with only one respondent (an audit firm) not supporting this conceptual approach. A number of respondents did, however, raise concerns about the level and complexity of IFRS 13 disclosures. CIPFA/LASAAC is to respond to this point by emphasising the need to consider materiality in disclosures.

10. The Chairman thanked HM Treasury and CIPFA for the presentation and asked Members for comments.

11. Anthony Appleton queried the need for the distinction between surplus and non-surplus categories of asset if held for their service potential. Jason Dorsett noted that the distinction was based on assets that were originally purchased or held for their service potential but had subsequently not been use for several years. This was a pragmatic response.

12. Andrew Baigent asked how assets that had been mothballed would be treated under the proposed approach. HM Treasury noted that if there was no clear plan for the asset to be put into use then IAS 40 or IFRS 5 should apply.

13. The Chairman noted that there may be justifiable reasons for holding assets that are currently not in use, but disclosing the fair value gives the entity and user of the accounts an understanding of the alternative use value. This gives the right incentives. Ross Campbell noted that there were departments that would hold on to assets just in case they were useful in the future even if not in use now and no clear plan to bring them back into use. The Chairman noted that if there were no plans in place then it was right that the asset be revalued to exit prices.

14. Ron Hodges indicated that he was nervous about residual categories in general, but in this case can see it as a way of disclosing fair value. Andrew Buchanan agreed and indicated that as constructed the results were probably better than under IFRS 5. This was a neat way that avoids arguments.

15. The Chairman noted that Members were content.

16. On the conceptual issue raised the Chairman noted that this was not an IFRS 13 issue but a measurement objective issue. The proposed answer related to the application of IFRS 13 therefore doesn’t work, it is a question of how to apply IAS 16.

17. Maggie McGhee agreed that this was not an IFRS 13 issue. She indicated that her concern was that this was an attempt to circumvent an accounting issue that is currently under discussion. It does not answer the fundamental question about the extent to which cash flows are from outside the public sector. Concerns were also raised about the use of the phrase irrevocably.

18. Anthony Appleton asked whether there was another form of asset that is revenue generating and whether the proposal captured these. HM Treasury noted that there are assets that are held for their service potential but under a regulatory regime that requires assets to be managed in a way that generates cash flows. The Chairman agreed that there are other examples but that income generation is restricted. Bob Branson noted that the Environment Agency had some immaterial external commercial income but that it is only possible to sell surplus capacity; therefore the assets are primarily held for their service potential. Anthony Appleton indicated that this was reminiscent of debates held around the housing sector, where the solution was to focus on service potential as commercial income was insufficient.

19. Ross Campbell, indicated that in the specific case raised the entities classification, the extent of public subsidy, and the extent of subsidy needed to run the network meant that fair value was inappropriate. Gawain Evans reiterated concerns at the move from fair value as whole, but noted that if the Board's view was that adaptation was correct then it would need to be applied in all cases.

20. Andrew Buchanan noted that providing options would give a potential for inconsistency and the management of asset value. The solution is not perfect but it is pragmatic and better to retain than to have exceptions. Ross Campbell agreed noting that hard cases make bad laws. The Chairman concluded by indicating that it was not clear that this was a question for the Board, but if asked directly then on a conceptual basis the Board was not in agreement with the proposal put forward by the department.

21. Finally, the Chairman asked whether Members had any comments on disclosures. Her view was that the Streamlining project should deal with this. Alison Scott noted that discussion on this issue was held at CIPFA/LASAAC and the conclusion was that focus should be on materiality. Anthony Appleton noted that he had concerns around wording on costs and materiality. Did this mean that entities wouldn't have to revalue? HM Treasury noted that where the difference in values were not material, the FReM had always allowed historical cost to be used as a proxy for fair value. While the Memorandum of Understanding between the Relevant Authorities does allow the cost of compliance to be taken into consideration when deciding whether adaptation of a standard is acceptable, this is not the case for the proposals related to IFRS 13.

22. The Chairman thanked the Relevant Authorities and Members for all the work that has taken place on this standard, and the Board agreed the introduction of IFRS 13 into the Manuals for 2015-16.

Item 3: IFRS 9 Financial Instruments (FRAB (122)03)

23. HM Treasury presented this paper which provided initial stage 1 analysis of IFRS 9 Financial Instruments now that the standard has been finalised. It was indicated that in May 2013 the Board was provided with a paper noting the key points of the Standard and some initial high-level views of the potential implications for central government entities. This paper provided an update based on the final version of the Standard, which combines classification and measurement, the expected credit loss impairment model and hedge accounting.

24. The IASB have developed IFRS 9 in three phases between 2009 and finalising in July 2014. It is to be applied retrospectively from January 2018 subject to transitional reliefs. The objective of the new Standard is to provide users with more useful information about an entity's expected credit losses at all times and update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments.

25. IFRS 9 applies a single classification and measurement approach to all types of financial assets; at amortised cost or at fair value through OCI or residually through Profit or Loss. IFRS 9 carried forward unchanged almost all of the accounting requirements in IAS 39 for financial liabilities.

26. IFRS 9 contains a single forward-looking 'expected-loss' impairment model applied to all financial instruments subject to impairment accounting which will result in earlier and more timely recognition of expected credit losses. The new model also requires that an impairment allowance, for expected credit losses, be raised even where no evidence of deterioration is present.

27. IFRS 9 introduces a reformed model for hedge accounting which principally aligns the accounting treatment with risk management activities.

28. The introduction of IFRS 9 is likely to have the greatest impact on banks and other financial institutions. In central government, these changes are likely to have a significant impact on departments that have substantial financial assets, if introduced without adaptation. IFRS 9 has practical implications particularly for assets where no active market exists. The paper covers a multitude of other possible public sector implications, such as the increase in the volatility in provisions to spending pressures on departments to difficulties in obtaining valuations if existing adaptations under IAS 39 were not continued.

29. HM Treasury asked Board members to note the finalisation of IFRS 9 and to provide early views on the potential public sector implications.

30. The Chairman noted that IFRS 9 is not yet endorsed by the EU, but that it was right to begin this discussion. It was the starting point of a journey to understand what is being proposed and tackling issues that may arise.

31. Andrew Buchanan commented that this was an excellent paper, providing a good summary of where we are and the changes arising from the standard. On the question of impairment raised in the paper, it was not clear whether this would cause more volatility or not. The existing IAS 39 requirements have a cliff-edge approach, which will not be the case under IFRS 9. Significant volatility would only be expected if there was a sudden deterioration or pick-up in the wider economy. On hedge accounting the new standard lowers the barrier considerably on being able to hedge account, which could provide benefits to government departments who had been unable to in the past. However, a key change in comparison with IAS 39 is that once into hedge accounting you need to stay; there is no option for voluntary designation. On timing, EU adoption should be expected on time as, among others, the European Central Banks appeared supportive of the standard. It was, therefore, right to plan for a 2018 effective date and work the timeline back from that to ensure that we are ready.

32. Bob Branson asked about fees and charges, and whether the new standard would require an upfront forecast of what debt recovery would be expected to come in? And would this lead to AME impacts due to the need to make larger debt

provisions. It was confirmed that this was effectively the case, but that the impact on short term receivables would be expected to be negligible. The Chairman noted that it was long-term items like the student loan book where there would be greater impacts, with Ross Campbell noting that DFID had raised queries regarding the impact on its financial instruments already.

33. Gawain Evans noted that this would seem to make hedging easier, and David Hobbs indicated that this seemed to align with Eurostat requirements for more comprehensive disclosures on non-performing loans and the separation of embedded derivatives. Veronica Poole highlighted that where entities had instruments with embedded derivatives, then that was where the need to undertake initial early analysis was most important.

34. Andrew Baigent noted that it was good to get this paper early so that implications could be thought through. DH had approximately £1bn in financial assets and it would be necessary to get budget impacts right. While this would not be ready by the next SR it was clearly necessary to know the detail. Alison Scott returned to the implications for hedge accounting and noted that this could provide more possibilities for entities. Veronica Poole agreed noting that this was not just a financial reporting decision as it could actually change strategy.

35. Ron Hodges agreed that this was an excellent paper and questioned whether IFRS 9 was opening up the possibility of moving back to a 'general provision' framework that could be misused. Veronica Poole noted that this was not the case, with impairments and provision related directly to specific circumstances. The main issue found in the private sector to date had been that data captured by credit systems was not automatically captured within financial reporting systems and this was likely to be the case in the public sector. Continued monitoring will also be difficult as sensitivity to the economic environment was increased. Banks had indicated that 2018 may not be enough time to get ready.

36. Jason Dorsett noted that it was hard to predict the impact given potential political changes to move from a regime of funding services through direct taxation towards charging mechanisms. Anthony Appleton noted that the application of the standard would require some coordination, with a consistent approach to what is "significant". Basel were looking at providing common guidelines for example, and something similar could be needed in the public sector. Maggie McGhee agreed on the need for consistency and how this could impact on Supply.

37. The Chairman concluded the discussion by noting that the paper had absolutely done its job in highlighting what the standard says and where there were differences to the current approach. What was needed now was for the Relevant Authorities to plan for the standards introduction and to determine what work needed to be undertaken and when. A paper detailing this would be expected for the next meeting.

Item 4: IFRS 15 Revenue (FRAB (122)04)

38. CIPFA presented this paper which provided an initial stage 1 analysis of IFRS 15 Revenue Recognition. It was noted that the objective of IFRS 15 Revenue from Contracts with Customers is to establish the principles an entity is required to apply to

report useful information to the users of financial statements about the nature, amount, timing and uncertainty of revenues arising from contracts with customers. It was indicated that the IASB issued IFRS 15 in May 2014 and that the Standard is effective for periods on or after 1 January 2017 with EU adoption expected by its effective date.

39. It was noted that the core principle in IFRS 15 is that entities should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The five steps to recognise revenue required by the standard were also highlighted.

40. The Chairman asked Members if they had any comments on the paper. Andrew Buchanan noted that there was a joint IASB/FASB group assisting in the implementation of the standard. At its October 2014 meeting, it had been suggested that in the US there could be a consultation about deferring the adoption date to 2018. This would be welcome as there was still a considerable amount of lead time work needed. He noted that there may be an impact on licensing arrangements in the public sector. He also noted that entities would need to look at disclosures as, even if there were no changes to revenue recognition itself, additional systems or processes might be required to gather the necessary information.

41. Veronica Poole noted that there could be a significant impact or there could be none. What was needed was an examination of every contract and to analyse them using the five step analysis. This was not about complexity in accounting but complexity in planning processes.

42. The Chairman agreed noting that until a scoping exercise had been undertaken it would be unclear if there were any problems requiring adaptations to ensure a consistent approach. While implementation dates may change planning should take place on the basis of a 2017-18 implementation. It was therefore necessary to begin the initial steps. Veronica Poole noted that the biggest issue they had found was identifying who in an organisation could enter into revenue contracts and on what terms.

43. Bob Branson asked if there was any understanding of what the issues were likely to be in the public sector context. Jason Dorsett noted that for health there were likely to be two impacts. The first on the internal market and standard contracts and the second on the supply of private healthcare. On intercompany trading Andrew Baigent noted that it would likely require a group accounting policy, Jason Dorsett noting that there was £64bn in intercompany contracts.

44. Anthony Appleton agreed that the standard was not difficult to understand but that a series of "lookouts" which could act as danger signs during initial scoping work would be useful. The Chairman agreed as this would give a solid starting point.

45. Veronica Poole indicated that if there is an ongoing obligation then this does create complexity, with the Chairman noting that the problems in the public sector were likely to result from volume and quirkiness although this might not mean different accounting. Jason Dorsett noted that if you had created something complex then it was no surprise that there was additional accounting complexity.

46. The Chairman concluded that there was a need for a working group of the Relevant Authorities to address the introduction of the standard, and that a plan for

the next meeting would be useful to ensure that the necessary work was going to be undertaken.

Item 5: EPSAS (FRAB (122)05)

47. The FRAB Secretary presented this paper which provided an overview of developments in Eurostat's EPSAS project since the last FRAB meeting. It was noted that since the last Board meeting there have been two main developments. The first was that EPSAS has now been discussed at the Economic and Financial Committee of the European Council, who have delegated further discussion to the subcommittee on statistics. At the EFC discussion focussed on the need to ensure appropriate timing and for attention to be paid to subsidiarity and the balance of costs and benefits. While issues with EPSAS were recognised there was general support for accrual accounting. Subsequent discussion at the subcommittee was mixed, with a general lack of understanding of the reason for the development of the project and the proposals for EPSAS.

48. The second major development is the publication of PwC's initial impact assessment produced on behalf of Eurostat to inform the Commission Communication. The impact assessment provides:

- (i) An assessment of the cost and benefits of EPSAS implementation at the EU level utilising cost information and experiences from those Member States that have already made a transition to accrual-based standards;
- (ii) An analysis of the IPSAS standards and their application by EU Member States, including responding to comments made by Member States on individual IPSAS standards;
- (iii) The provision of a number of recommendations for implementation of EPSAS.

It also provides an expected cost of transition to EPSAS (with IPSAS used as a proxy) of between €1bn and €6bn.

49. The FRAB Secretary also noted that since the paper was provided to Members there has been a further meeting of the EPSAS Governance Taskforce. The meeting focussed on the PwC study, a change in approach to implementation in which governance principles and structures would be determined first prior to the elaboration of standard principles and the actual standards, the completion of the IPSAS conceptual framework and implication for the EPSAS principles, and Member States experiences of developing opening balance sheets.

50. The Chairman thanked the FRAB Secretary for this update and asked Members if they had any questions. Larry Honeysett asked for confirmation of the purpose of the project. The FRAB Secretary noted that primarily the purpose was to improve Government Finance Statistics by ensuring that Member States were deriving the statistics from consistent audited accruals based data based on harmonised standards. There has been an increase in emphasis recently, however, to also focus

on the financial management improvements that can be derived from accrual accounting. David Hobbs confirmed that the purpose was based on improving the quality and consistency of National Accounts.

51. Jason Dorsett asked for confirmation that the cost of introducing EPSAS highlighted in the PwC study was basically the cost of introducing accrual accounting in general and not specifically EPSAS. The FRAB Secretary confirmed this, noting that the cost was effectively an estimate of introducing IPSAS accrual accounting.

52. Ron Hodges raised the centrality of the European Commission in the proposals and its expected role as standard setter which it was seeking after having had its fingers burned with IFRS. The Chairman was not sure that this was an accurate reflection, with the Commission wanting the retention of the IASB as an independent standard setter. The Chairman also noted that in the UK there was support for moving to independent standard setters as it was proving impossible to make the difficult decisions.

53. The Chairman concluded that regardless of the approach ultimately taken in Europe and how this was translated into the UK public sector context, there would remain a need for the Board.

Item 6: Simplifying and Streamlining Statutory Annual Report and Accounts (FRAB (122)06)

54. Ross Campbell presented this paper, which updated the Board on the current status of the Simplifying and Streamlining Annual Report and Accounts project and the changes that are being made to the 2015-16 FReM.

55. The Board was reminded that detailed design work supported by the FRAB enabled the publication of a Command Paper prior to summer recess which called for a reduction in mandatory disclosures, an Annual Report and Account based around a Performance – Accountability – Financial Statements structure, and a clearer focus on materiality. Comments on the proposals have been received from the Liaison Committee and the Environmental Audit Committee. On the whole these responses were supportive, and HM Treasury will be replying to these committees following this meeting. There is an issue with sustainability reporting, however, which Members views are requested on.

56. It was noted that proposed amendments have also been made to the 2015-16 FReM to introduce the changes arising from the project and a number of departments and other entities have responded to the published Exposure Draft. These paper provides the Board with an overview of these responses and how HM Treasury will respond to them. Once the first stage of the project has been introduced, HM Treasury will begin move forward with the next steps for the project, including a more radical look at reporting by “smaller and less risky entities”.

57. The Chairman asked Members for comments and questions.

58. Sir Edward Leigh thanked the FRAB and HM Treasury for all the work that had gone into the project to date. He noted that this is very important for MPs and was hopeful that there would be no lacuna in this over the general election. The Liaison Committee is very supportive of the proposals, although he stressed that it is important

to have an objective framework. Ultimately what is needed is something for the lay user so they can understand what is going on and what public money has been spent on. With regard to the Environmental Audit Committee's views on sustainability reporting, the purpose of the project is to ensure this is a shorter more useful document. A sensible dialogue will be needed with each committee but the overall direction of the project is the right one.

59. The Chairman noted that the need to ensure the Annual Report and Accounts is fair, balanced and understandable is very powerful in ensuring objectivity. Andrew Baigent agreed in principle, but noted that there is no one owner of the entire document. The Chairman asked why this would create difficulties, with Jason Dorsett noting that while the Accounting Officer could sign off the document, Ministers could still include a 'corporate' piece at the front disconnected from the rest. Gawain Evans noted that there is no Annual Report in Wales, with Mike Usher indicating there is the statement of accounting officers responsibility where the requirement could lie.

60. The Chairman noted that if outside of the fair, balanced and understandable boundary then it would be necessary to think carefully about how the Minister reports. Jason Dorsett agreed that there would need to be clarity on which parts of the Annual Report and Accounts were included in the fair, balanced and understandable boundary.

61. On wider reporting Anthony Appleton stated that step 1 had to be to examine the objective of reporting. In the private sector this was to meet the needs of investors and to give the strategic level view. If you start from their and look through this lens then yes things like sustainability reporting should be included if necessary, but it is better if this is integrated into wider reporting and then there is the mechanism to deliver. The Chairman noted that the clear objective here was reporting to Parliament, with the issue being not to automatically include something separately just because somebody wants it.

62. Veronica Poole stated that what matters is how sustainability is seen by different individuals within the business, and particularly the CEO view of examining the sustainability of business models. It is necessary to understand the risks that are important and how these are being managed. Sustainability needs to be linked to this broader concept. Ross Campbell agreed that this was the correct way to approach the issue.

63. Ron Hodges noted that there will always be requests for additional reports, but it was important to recognise the place for a general purpose report where it wasn't necessary to sit down with a specialist to understand it. Most reports are incomprehensible in the private and public sector so this was clearly a step in the right direction.

64. David Aldous indicated that in the local government sector changes to bring in narrative reporting through new Accounts and Audit Regulations were being proposed and that there would need to be proper practices and guidance to support implementation of this. A requirement for 'fair, balanced and understandable' reporting under proper practices would be helpful.

65. The Chairman noted that it would be necessary to continue to check how entities were performing under the new framework. Ross Campbell agreed noting that this will take time and that it would be an iterative process.

66. Bob Branson noted that sustainability reporting was important and that there was a need to ensure continued reporting around a set of common KPIs. The Chairman agreed but indicated that that reporting should only be necessary to the extent needed to understand the business. Veronica Poole compared this to the need to be fair and balanced, linking what you have tried to do and what you have achieved. Those reporting have to measure genuine benefits from this and how it is integrated into management.

67. Andrew Buchanan saw the proposals as a step towards creating an integrated report. He noted that there are moves to integrated reporting and that it was worth keeping an eye on these developments. The key is not to be too rigid so as to allow new better practice to emerge. With regards to complexity, he noted that there was no getting away from the fact that some things are complex. What was necessary was to put things in plain English so that the difficult becomes understandable. On the proposals for “FReM light” he suggested that the Treasury might look at the recent changes made to UK GAAP. The Chairman indicated that integrated reporting was also taking place in the public sector, and that the public and private sector needed to learn from each other.

68. Jason Dorsett raised this issue of a “FReM light” and drew a distinction between bodies that basically received central funding where this might be appropriate and more market bodies where full disclosure would be necessary. Andrew Baigent agreed and noted that there would also be important accountability issues to be debated.

69. Anthony Appleton indicated that the reduced disclosure framework in UK GAAP will be focussed more clearly on the objectives of non-disclosure. The main issues was that if entities are managed at the group level then that is how they should be disclosing.

70. Maggie McGhee noted that the NAO welcomed the general direction of travel. With regard to the Environmental Audit Committees comments, the NAO was conducting a VFM study that could inform the debate. On the group approach, an element of education was needed as some departments were providing pushback as they wanted the assurance pre-audit of subsidiaries brings. The red-pen approach has worked very well and shown that considerable improvements can be made under the current framework. On the “FReM light” it was important to understand that this was not just about value.

71. Gawain Evans noted that on integrated reporting, it would be useful if the Board could be briefed on developments. The Chairman agreed that this should be put on the agenda.

72. With respect to the specific queries raised in the paper the Chairman, asked Members for comment. On the first issue it was agreed that the SoPS narrative should be retained. On the second issue related to Companies Act requirements the Chairman noted that the focus should be on whether this was right for public sector entities rather than focussing on numbers of staff. On the issue of whether the changes as a whole would lead to an increase in differences between the Manuals requiring FRAB approval, the Board were content to take a high level view focussed on the standards rather than the overall framework.

73. David Hobbs noted that for lay users the approach would bring benefits, but that consideration should be given to moving towards interactive web based delivery

which would allow for more detailed linked information to also be provided to specialists and those with a specific interest.

74. The Chairman finished the discussion by noting that if you can't explain what you are doing simply in an Annual Report and Account then it would be worth questioning whether you should be doing it.

Item 7: Financial Reporting Manual amendments 2014-15 and 2015-16 (FRAB (122)07)

75. HM Treasury presented this paper, which provided the Board with the updated FReM and illustrative statements for 2015-16 as a result of the Streamlining and Simplification Project and the introduction of IFRS 13. Minor updates to the 2014-15 FReM had also been proposed to improve clarification of standards adopted and which should be applied.

76. HM Treasury noted that minor changes and corrections had been proposed to the 2014-15 FReM to correct minor errors and reduce inconsistencies and possible ambiguity. Two more substantive changes had also been made relating to financial instrument disclosures. HM Treasury gave a commitment to PAC following a hearing regarding the NAO's report, "Managing debt owed to central government", February 2014 to strengthen guidance and promote best practice on reporting of debt in accounts where it is material. Where entities are exposed to material financial risk, the FReM has now additional emphasis for entities to consider the relevant disclosures for significant credit risk of receivables. The second amendment includes the requirement to retain the IFRS 7 (2011) disclosures of valuation techniques to determine fair value of financial instruments following their relocation to IFRS 13 on its introduction. As IFRS 13 is not being implemented until 2015-16, the original disclosure references are to remain.

77. HM Treasury then noted the changes to the 2015-16 FReM which fall into three main categories:

- Adoption of IFRS13 Fair Value for the first time – this also includes IAS 16 and IAS 38 adaptations, previously discussed at FRAB, paper (121) 07 and (122) 02;
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts in line with the Project and the Statement of Parliamentary Supply notes previously discussed at FRAB, paper (121) 08 and (122) 06. Main changes include the introduction of three parts to the ARAs: the Performance Report, the Accountability Report and the Financial Statements; and
- Minor accounting updates – including introduction of two charity SORPs for relevant ALBs.

78. The Chairman thanked the Treasury for presenting the paper and asked Members if they had any comments on 2014-15 changes. The Board was content with the proposals.

79. The Chairman then turned the Board's attention to 2015-16 changes. The first query was whether the charity SORP issue was actually a problem. Anthony Appleton

noted that the small charities SORP will need to change and that there would be very few differences left.

80. On materiality, Andrew Buchanan suggested that it might be helpful to include an explicit statement noting that materiality had qualitative and quantitative characteristics. Maggie McGhee indicated that it was the qualitative aspects where many issues arose, with the Chairman noting it was right to remind people to go through the thought process. Jason Dorsett raised the issue that in some areas such as losses and special payments materiality was effectively mandated at a set value, with the Chairman indicating that it might be worth noting the exceptions.

81. Andrew Buchanan raised a technical query about the interpretation not to impair assets under construction until completed. The Treasury noted that this was not a new interpretation and would provide background to why it was initially introduced.

82. The Chairman noted that it should still be a requirement to note significant accounting policies and that these could be included next to the relevant disclosure note.

83. Andrew Buchanan further asked whether for Agency Pink and NDPB green the aggregation of operating segments to reporting segments was correct and the Treasury agreed to look again at this.,

84. Maggie McGhee noted that it was necessary to better define which areas of the Parliamentary Accountability section would be subject to the audit opinion, and questioned whether the status of Department Yellow had changed given the reference in section 5.4 of the FReM.

85. Andrew Buchanan indicated that amendments to IAS 1 were expected pre-Christmas and that these could provide some further useful areas for the Treasury to consider.

86. The Chairman asked Board Members to provide further comments to the Treasury by Friday 5 December, after which the FReM would be taken as approved.

Item 8: Local Authority Code draft 2015-16 (FRAB (122)08)

87. Alison Scott introduced this paper, which asks the Board to approve the amendments to the 2015/16 Code and the 2014/15 Code Update for the local authority context arising from the proposals set out in this paper (including the Annex to the Code setting out the differences from the FReM) and the changes made since the 2014/15 Code.

88. Changes to the text of the 2015/16 Code were proposed in relation to:

(a) IFRS 13 Fair Value Measurement – As noted in the IFRS 13 paper.

(b) Narrow scope amendments to IFRS - The Exposure Draft included relevant changes to adopt the following narrow scope amendments without the need for adaptation:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions);
- Annual Improvement to IFRSs 2010 – 2012 Cycle; and
- Annual Improvement to IFRSs 2011 – 2013 Cycle.

(c) IFRIC 21 Levies - The Exposure Draft on the 2015/16 Code included IFRIC 21 without adaptation.

(d) Changes to UK GAAP - The Code draws on UK GAAP including the Pensions SORP2 for three areas

- Accounting for VAT;
- Accounting for Heritage Assets; and
- Accounting and Reporting by Pension Funds particularly the format of the Pensions Fund Account and Net Assets Statement.

Substantial changes to the Code were not required for accounting for VAT and Pensions but CIPFA/LASAAC has confirmed its intention to include an interpretation of FRS 102 to maintain the current provisions in the Code on the measurement of Heritage Assets which were based on FRS 30 Heritage Assets (i.e. the relaxation of the measurement requirements).

(e) Other minor and drafting amendments – The Code Update for 2014-15 related to accounting for schools has also been updated with a focus on transitional arrangements and the allowance of a deemed cost valuation.

(f) Frequency of valuations for property, plant and equipment, the consultation responses from a number of authorities and an auditor raised the issue that some auditors were interpreting references to short period for the revaluation of a class of assets in IAS 16 as being written in such a way that a short period is expected to be within the reporting year. CIPFA/LASAAC does not agree with this for the reasons set out in the report. It has therefore introduced an interpretation containing the text set out in the report.

89. The Chairman requested comments from Members. Andrew Buchanan raised a small number of technical queries including one related to cross-referencing and in one relating to seemingly contradictory text.

90. The Chairman asked Member if they had further comments on the Code to provide by Friday 5 December, and Members agreed that the final Code could then be agreed by the Chairman without the requirement to bring it back to the full Board.

91. The Chairman confirmed that the Board was content that the 2014/15 Code Update could be issued.

Item 9: DH Group Accounting Manual 2014-15 (FRAB (122)09)

92. Andrew Baigent presented this paper which provides the Board with the final draft of the DH Group Accounting Manual 2014-15 for approval. An early draft of the

Manual was considered by FRAB in April 2014 and was subsequently issued for review and comment by stakeholders. A final draft has now been completed and the Department now seeks FRAB approval to issue the Manual.

93. It has undergone some restructuring in line with the Department's intention to move towards the issue of a single DH Group-wide Manual that contains core Group information, supplemented by entity-type specific guidance where appropriate and useful, and some CCG and NHS Trust-specific guidance is now presented separately in appendices. The NHS Foundation Trusts' Annual Reporting Manual (ARM) is still published as a separate and free-standing document at present but will be brought into the Group Manual next year.

94. Work will begin immediately on the 2015-16 Manual for Accounts, with the aim of presenting it to FRAB in March 2015 and publishing in April 2015.

95. Andrew Buchanan raised a small number of comments on the manual, including seeking clarity around the potential impact of IFRIC 21 and the impact of pooled budgets and IFRS 11. Andrew Baigent indicated that he did not believe there were issues with these.

96. David Aldous asked the Board to note the progress made with bringing forward the timetable for preparing and issuing the Manual, and the Chairman and the Board noted the significant improvements made over the past year.

Item 10: FRAB Working Practices (FRAB (122)10)

97. The FRAB Secretary led this discussion which sought Board Member views on the current state of FRAB working practice.

98. The Secretary began but registering disappointment that the Board had still not received a nomination for a central government preparer nominee when this position had been open for a considerable length of time. The Board formally noted its disappointment with the lack of engagement from the Financial Leadership Group despite repeated requests from the FRAB Secretary for a nomination to be put forward.

99. Andrew Baigent asked what sort of Member the Board would wish to see nominated. The Chairman noted that the Board was flexible but needed someone of sufficient seniority to command respect who also had solid operational experience.

100. On the issue of frequency of meeting, contact between meetings, the Chairman asked for Member views. Jason Dorsett felt that for the meeting in which the Manuals are provided papers should be sent out further in advance, Mike Usher agreed on this point.

101. On frequency the Chairman felt that the number of meeting felt short and this was agreed by Andrew Baigent and Andrew Buchanan who felt that it was having an impact on the rhythm of the Board. The Secretariat were asked to consider this point.

Any Other Business

102. HM Treasury updated Members on likely discount rate movements and confirmed that a paper would be provided at the next meeting to look at the methodology.

Date of Next Meeting

103. The next FRAB meeting is currently due to be held on Thursday 26 March 2015 at HM Treasury.