HM TREASURY

FRAB (124) 07
18 June 2015

Financial Reporting Advisory Board Paper

Annual Improvements Cycle 2012-2014 (and other narrow scope amendments)

Issue:	The IASB has made a number of narrow scope amendments, including those as a part of their Annual Improvements process, which have been approved or are currently under consideration for adoption by the European Union. This paper considers amendments made since the March 2014 'out of meeting' FRAB paper and their implications for public sector financial reporting. The Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.
Impact on guidance:	No impact identified.
IAS/IFRS adaptation?	None noted.
Impact on WGA?	No significant impact identified at this stage.
IPSAS compliant?	IPSAS future work programme expected to address IFRS narrow scope amendments.
Interpretation for the public sector context?	No interpretations required.
Impact on budgetary regime?	None noted.
Alignment with National Accounts	No alignment issues identified
Impact on Estimates?	None noted.
Recommendation:	The Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.
Timing:	See 'ANNEX' for effective dates.

DETAIL

Background

1. The IASB has issued a number of narrow scope amendments, including as part of their Annual Improvements' process for 2012 to 2014, which have now been approved or are currently under consideration for adoption by the European Union.

2. The Board has considered narrow scope amendments and their implications for public sector financial reporting in the past. A paper was presented to the Board in May 2013 on previous narrow scope amendments and additionally in March 2014 an 'out of meeting' paper was distributed to the Board for consideration.

3. The Annex indicates what these amendments are and HM Treasury's view as to whether there are any public sector specific financial reporting impacts that may require further work to be performed and the relevant effective dates of the amendments. No immediate further action, at this stage, is required as a result of the amendments considered in this paper. Only one of the amendments considered has been adopted by the European Union.

Impact on accounting treatment and disclosures

4. While no amendments to the FReM are proposed (at this stage), reporting entities will need to ensure that they are compliant.

IAS/IFRS compliance

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

IPSAS compliance

6. 'Improvements to IPSASs 2014' published in September 2014 set out amendments to IPSASs based on the IASB's Annual Improvements' cycle (up to 2012) and narrow scope amendments projects. Accordingly, we expect that these narrow scope IFRS amendments will be incorporated into the IPSAS work plan later on.

Proposed text for the Government Financial Reporting Manual

7. No amendments to the FReM are proposed.

Impact on the budgetary regime

8. No impact on budgetary control has been identified.

Summary and recommendation

9. The Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.

HM Treasury
18 June 2015

ANNEX

Narrow scope amendment	**Effective date: periods beginning on or after**	**FReM introduction effective date (subject to EU adoption)**	**Summary of changes**	**Public sector specific reporting issue**
EU adopted at the time of this paper				
IAS 36 - 'Impairment of assets' on recoverable amount disclosures	1 January 2014	To be introduced in the 2015-16 version of the FReM.	This amendment, which seeks to address the implications of references to IFRS 13 *Fair Value Measurement*, modifies some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets. It clarifies the scope of certain disclosures and removes burdensome and unintended disclosures requirements without reducing the relevance and comprehensibility of the financial information. At FRAB 121 the Board decided to adopt the IFRS 13 disclosures without any substantial changes. HM Treasury recommends the same approach for the consequential amendment of IAS 36.	None noted.
Not yet EU adopted as at the time of this paper				
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations: Change in methods of disposal *(Annual Improvement Cycle 2012-2014)*	1 January 2016	With a view to include in the 2016-17 FReM.	The amendment to the Standard clarifies that changing from either one of these disposal methods (sale or distribution to owners) to the other should not be considered to be a new plan of disposal. There is no time lag or interruption of the application of the requirements in IFRS 5.	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			Additionally, the date of classification is not changed if there is a change in disposal method and should not be considered to be an event or circumstance that may extend the time to complete a sale. Judgement is required to determine if there was a 'direct reclassification'. The amendment should be applied prospectively to avoid possible use of hindsight with regards to judgement required.	
IFRS 7 - Financial Instruments: Disclosures: Servicing Contracts *(Annual Improvement Cycle 2012-2014)*	1 January 2016	With a view to include in the 2016-17 FReM.	This amendment relates to IFRS 7 which requires disclosures for any 'continuing involvement' in an asset which has been transferred and fully derecognised. The issue debated by the IASB was whether a servicing contract is 'continuing involvement' for the purposes of the IFRS 7 disclosure requirements. This amendment clarifies that the right to earn a fee for servicing a financial asset should not automatically be presumed to be 'continuing involvement' but that that it may be and an assessment should be made regarding the nature of the fee and arrangements against guidance issued under the Standard to gauge whether the disclosures are required. The IASB also agreed that the term 'continuing involvement' in IFRS 7 is used in a different way to that under IAS 39 *Financial Instruments: Recognition and Measurement* /IFRS 9 *Financial Instruments*.	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			Servicing entities with servicing contracts may be required to make additional disclosures. For example, where the servicing fee is reliant on the cash flows collected on the financial asset, even if the asset has been transferred, there is still 'continuing involvement' on the part of the entity providing the service; thus further disclosures will be required. The assessment of which servicing contracts constitute 'continuing involvement' needs to be done retrospectively. However, the IASB has given relief that disclosures are not required for periods beginning before the reporting period when this amendment is first applied. This concession has been made to reduce the burden on preparers and to prevent use of hindsight.	
IFRS 7 - Financial Instruments: Disclosures: Applicability of the amendments to IFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements *(Annual Improvement Cycle 2012-2014)*	1 January 2016	With a view to include in the 2016-17 FReM.	This amendment clarifies that the additional disclosure requirements required by IFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* is not explicitly required in condensed interim financial statements. This better aligns the Standard and guidance with IAS 34 *Interim Financial Reporting*. IAS 34 does still require 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Consequently, if IFRS 7 disclosures provide a meaningful update to information reported in the most	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			recent annual report then these disclosures are expected to be included in the condensed interim financial report.	
IAS 19 - Employee Benefits — Discount rate: regional market issue *(Annual Improvement Cycle 2012-2014)*	1 January 2016	With a view to include in the 2016-17 FReM.	The amendment clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level based on the currency in which the obligation is denominated, rather than the country where the obligation is located.	None noted.
IAS 34 - Interim Financial Reporting: Disclosure of information "elsewhere in the interim financial report" *(Annual Improvement Cycle 2012-2014)*	1 January 2016	With a view to include in the 2016-17 FReM.	The Standard requires disclosure of information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. This amendment requires either the inclusion of a cross-reference from the interim financial statements to the location of this information in the greater financial report (for example, in the management commentary) or disclosure in the interim financial statements. The IASB clarified that this amendment is not expanding the scope of the interim financial report and that this information in the interim financial report must be accessible to users at the same time and on the same terms as the interim financial statements, or else the interim financial report will be incomplete.	None noted.
IAS 1 – Disclosure Initiative	1 January 2016	With a view to include in the 2016-17 FReM.	The amendments encourage professional judgement to be used in determining what information to disclose in financial statements and where and in what order information is presented in the financial disclosures. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			of immaterial information can inhibit the usefulness of financial disclosures.	
IAS 27 – Equity Method in Separate Financial Statements	1 January 2016	With a view to include in the 2016-17 FReM.	The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Prior to the amendment, such investments are measured at either cost (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* where applicable) or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.	None noted.
IAS 16 and IAS 41 – Bearer Plants	1 January 2016	With a view to include in the 2016-17 FReM.	This amendment includes bearer plants within the scope of IAS 16 because their operation is similar to that of manufacturing, instead of IAS 41, meaning that they will no longer have to be measured at fair value less costs to sell. Under the FReM, all tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date - that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets.	None noted
IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation	1 January 2016	With a view to include in the 2016-17 FReM.	This amendment prohibits revenue-based depreciation methods and generally presumes that such methods are an inappropriate basis for amortising intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
IFRS 11 – Accounting for acquisitions of interests in joint operations	1 January 2016	With a view to include in the 2016-17 FReM.	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The new guidance provides clarification for issues such as the accounting for previously held interests when additional interest is acquired while joint control is maintained.	None noted.
IFRS 10 and IAS 28 – Sale or contribution of Assets between an investor and its associates or joint venture	1 January 2016	*With a view to include in the 2016-17 FReM, subject to review.*	The amendments prescribe the accounting treatment for the sale or contribution of assets between an investor and its associate or joint venture. The amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The European Financial Reporting Advisory Group (EFRAG) has recommended to the European Commission (EC) to postpone the endorsement process on these amendments until the IASB's project on 'Elimination of gains or losses arising from transactions between an entity and its associate or joint venture' is completed. The IASB will include necessary changes to both Standards within the forthcoming Exposure Draft to be published in the second quarter of 2015.	HM Treasury will defer the review and decision on whether any interpretations or adaptations are required in the FReM subject to the forthcoming Exposure Draft and response of the IASB and EFRAG.
IFRS 10, IFRS 12, IAS 28 – Investment entities: applying the Consolidation Exception	1 January 2016	With a view to include in the 2016-17 FReM.	The amendments clarify the requirements when accounting for investment entities, specifically: 1) when there are exemptions to preparing consolidated financial statements – i.e. when the intermediate parent	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			can apply the exemption when the ultimate parent is an investment entity; 2) subsidiaries (which are also investment entities) providing services that relate to the parent's investment activities – i.e. how an investment parent entity should account for this type of subsidiary; 3) application of the equity method by a non-investment entity investor for its interests in any associates or joint ventures that are investment entities; and 4) how the relevant IFRS 12 disclosures should be applied to investment entities. In most cases, entities engaging in investment activities will not apply the FReM directly, but they will comply with the principles of the FReM alongside producing additional disclosures. These entities are not typically producing accounts following directions issued by HM Treasury.	