

HM Treasury review of new IFRS issued and/or effective during the 2014-15 financial year

This review provides a guide to reporting entities applying the FReM on both the new IFRS Standards that have been issued that are not yet effective and those that are effective for the first time in the 2014-15 FReM, which could be relevant to organisations preparing accounts under the FReM. The details are provided in three sections:

- I. Standards that are issued and effective for the first time in the 2014-15 FReM: providing a high level assessment of the impact on reporting entities. Entities should consider the impact and apply any necessary changes to 2014-15 annual accounts accordingly. These have been incorporated into the 2014-15 FReM, with amendments made where the Standard has been interpreted or adapted for the public sector context. A link is provided to all FReM guidance, including amendment records, published for [2014-15](#) and [2015-16](#).
- II. Standards issued but not yet effective and providing an early assessment of the expected impact during initial application, in accordance with IAS 8 requirements. This assessment will take into consideration current EU adoption, current relevant FReM interpretations or adaptations and a high level impact assessment, specific to central government.
- III. Accounting initiatives for which the Standards are under development.

This guidance is to assist reporting entities but further analysis may be required where the impact is expected to be significant.

I. Accounting Standards issued and effective in the 2014-15 FReM for the first time

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
IFRS 10 (Consolidated Financial Statements), 11 (Joint Arrangements), 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures)	1 January 2014 (EU adopted, effective from 1 January 2014)	2014-15	<p>IASB have issued new and amended Standards that affect the consolidation and reporting of subsidiaries, associates, joint ventures and investment entities:</p> <ul style="list-style-type: none"> • IFRS 10 definition of control (investor power and ability to direct activities of an investee) requires more judgement, notably of agency principal relationships. Clarity on investor exposure or rights to variable returns (e.g. cost savings) may result in new consolidations, notably asset and fund managers. • IFRS 11 provides a principles-based definition of joint arrangements (joint operations or joint ventures) based on rights and obligations. Proportional consolidation accounting for joint ventures is no longer permitted (only equity accounting). • IFRS 12 requires more disclosure of the financial effects on, and risks to, the consolidating entity. • Investment entities. IASB updated the reporting requirements effective on or after 1 January 2014, providing guidance on exceptions to consolidation under IFRS 10. Instead, investment entities (entities whose business purpose is to make investments for capital appreciation and/or investment 	<p>Accounting boundaries are adapted in the FReM so that the Westminster departmental accounting boundary is based on ONS control criteria, as designated by HM Treasury. ALB's apply IFRS in full and their consolidation boundary may change as a result of the new Standards.</p> <p>With the continuation of current adaptations, the impact on departments mainly relates to the disclosure requirements under IFRS 12.</p>

			income) are required to present investments in subsidiaries as a net investment at fair value.	
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II. Accounting Standards issued but not yet effective

IAS 8 (paragraph 30) states that “when an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- This fact; and
- Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity’s financial statements in the period of initial application.

Standard (amendment/ new)	IASB effective date – beginning on or after (EU Adopted?)	FRoM Application?	Summary	Central Government Impact
IFRS 13 – <i>Fair Value Measurement</i> (new)	1 January 2013 (EU adopted)	2015-16	<p>IFRS 13 has been prepared to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS (except where IFRS 13 explicitly states otherwise):</p> <p>The Standard defines fair value, provides guidance on fair value measurement techniques, and sets out the disclosure requirements.</p> <p>The Standard requires fair value be measured using the most reliable data and inputs available to determine the exit price for an asset / liability. This exit price is taken to be the price that two market participants (a buyer and seller) would settle on. To ensure transparency over the differing quality of inputs used to determine fair value, the Standard has established a hierarchy for input quality.</p> <ul style="list-style-type: none"> • Level 1 inputs (highest quality) are published prices available in an active market; • Level 2 inputs are observable data available in a non-active market; and 	<p>Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.</p> <p>IAS 16 is adapted to specify the following valuation bases for property, plant and equipment:</p> <ul style="list-style-type: none"> • Assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as

			<ul style="list-style-type: none"> Level 3 inputs (lowest quality) are all other inputs, which are mostly unobservable. Entities are required to use the most appropriate inputs available to them in determining fair value. The inference is that the higher the quality, the more appropriate the input. <p>IFRS 13 requires additional disclosures where level 3 inputs are used to assess fair value, to give readers an understanding of the sensitivity of the valuation to changes in those inputs.</p>	<p>the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.</p> <ul style="list-style-type: none"> Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13. Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value applying IFRS 13. <p>IAS 38 has been adapted for the public sector as follows: Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible</p>
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				asset. Where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn and the current value should be based on the market value in existing use. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost.
IAS 36 - ' <i>Impairment of assets' on recoverable amount disclosures</i> (amendment)	1 January 2014 (EU adopted)	With a view to include in the final version of the 2015-16 FReM (subject to review)	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 understandability of the financial information.	To be considered by HM Treasury with the expectation that it will be applied when IFRS 13 is introduced in the FReM. Any adaptations or interpretations will follow due process and be included in the final version of 2015-16 FReM.

III. Financial Reporting – Future Developments

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
IFRS 14 - <i>Regulatory Deferral Accounts</i> (new)	1 January 2016 (not yet EU adopted)	The Standard will be adopted in the FReM once it has received EU adoption (which is still to be decided)	IFRS 14 is a limited scope Standard providing an interim solution for rate-regulated entities that have not yet adopted IFRS. It permits them to avoid changes in accounting policy until such time as the IASB has completed its wider project on rate regulated activities. The Standard permits an entity upon first-time adoption of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.	HM Treasury has identified no public sector specific reasons to adapt or interpret IFRS 14 and upon EU adoption the Standard will be applied in full in the FReM.
IFRS 15 - <i>Revenue from Contracts with Customers</i> (IAS 18 replacement – <i>Revenue Recognition</i>)	1 January 2017 (not yet EU adopted) - [In April 2015 the IASB tentatively voted to defer	With a view to include in the 2017-18 FReM (subject to EU adoption and consultation)	The IASB issued IFRS 15 in May 2014 with an effective date for periods on or after the 1st January 2017, with EU endorsement currently expected in the second quarter of 2015. The disclosure objective of the new Standard is to establish the application principles required for entities to report useful information to	The introduction of IFRS 15 is subject to analysis and review by HM Treasury and the other Relevant Authorities. A work plan recently began to assess the impact on the public sector.

<p><i>and Liabilities Recognition)</i></p>	<p>the effective date for IFRS 15 by one year to 1st January 2018. The IASB will consult on this decision before the effective date is confirmed and aims to finalise discussions in July 2015.]</p>		<p>the users of financial statements to better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The disclosure requirements under the new Standard are more extensive than the current requirements included within IAS 18. The core principle in IFRS 15 recognises 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. To recognise revenue the Standard sets out five steps:</p> <ul style="list-style-type: none"> • Step 1 - Identify the contract(s) with the customer • Step 2 – Identify the performance obligations in the contract • Step 3 – Determine the transaction price • Step 4 – Allocate the transaction price • Step 5 - Recognise revenue when a performance obligation is satisfied <p>IFRS 15 also includes requirements for accounting for contract costs. The incremental costs of a contract must be recognised as an asset if the entity expects to recover those costs. However, those incremental costs are limited to the costs an entity would not have incurred if the contract had not been successfully obtained.</p>	
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<p>IFRS 9 – <i>Financial Instruments</i> (new)</p>	<p>1 January 2018 (not yet EU adopted)</p>	<p>With a view to include in the 2018-19 FReM (subject to EU adoption and consultation)</p>	<p>The IASB developed IFRS 9 in three phases between 2009 and finalising in July 2014. It is to be applied retrospectively 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 to update the amount of expected credit losses recognised at each reporting date of financial instruments. IFRS 9 applies a single classification and measurement approach to all types of financial assets; at amortised cost or at fair value through either OCI or residually through Profit or Loss. IFRS 9 carries forward unchanged almost all of the accounting requirements in IAS 39 for financial liabilities. 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. IFRS 9 introduces a reformed model for hedge accounting which principally aligns the accounting treatment with risk management activities.</p>	<p>The introduction of IFRS 9 is subject to analysis and review by HM Treasury and the other Relevant Authorities. A work plan recently began to assess the impact on the public sector.</p>
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IAS 17 replacement - <i>Leases</i>	The IASB plans to issue the new Standard before the end of 2015.	Subject to consultation when the new Standard is issued	<p>The current proposals include the elimination of the current operating lease categorisation for virtually all leases. Instead, assets and liabilities will be recognised on a 'right of use' basis. Two possible exemptions are anticipated, one being for short leases (less than 1 year) and the second being for small value assets.</p> <p>The Boards (IASB and FASB) jointly published a revised Exposure Draft Leases (the 2013 ED) in May 2013. The Boards received extensive feedback on their proposals, and have heard a broad range of views. Since March 2014 the Boards have re-deliberated almost all aspects of the project. In February 2015 they published a project update and March 2015 published a further update outlining the practical implications of the new Lease Standard. The February update 2015 focused on the definition of a lease under the new Standard. It emphasises that service contracts are not required to be capitalised on the balance sheet and that the new Standard will include accompanying guidance to help entities assess whether a contract is (or contains) a lease.</p>	HM Treasury has continued to analyse this process including the project update and consideration of practical implications. HM Treasury and the Relevant Authorities will review the implications and follow due process once there is a final Standard.
IAS 1 – <i>Disclosure Initiative</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2016-17 FReM (subject to EU adoption and review)	These 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 of immaterial	HM Treasury and the other Relevant Authorities will review the implications of this amendment and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.

			information can inhibit the usefulness of financial disclosures.	
IAS 27 – <i>Equity Method in Separate Financial Statements</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2016-17 FReM (subject to EU adoption and review)	This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.
IAS 16 and IAS 41 – <i>Bearer Plants</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2016-17 FReM (subject to EU adoption and review)	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.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.
IAS 16 and IAS 38 – <i>Clarification of acceptable methods of depreciation and amortisation</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2016-17 FReM (subject to EU adoption and review)	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.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.

IFRS 11 – <i>Accounting for acquisitions of interests in joint operations</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2016-17 FReM (subject to EU adoption and review)	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.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.
IFRS 10 and IAS 28 – <i>Sale or contribution of Assets between an investor and its associates or joint</i> (amendment)	1 January 2016 (not yet EU adopted)	The EU has postponed adoption whilst waiting for an Exposure Draft from the IASB	These amendments prescribe the accounting treatment for the sale or contribution of assets between an investor and its associate or joint venture. The European Financial Reporting Advisory Group has recommended to the European Commission 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.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.
IFRS 10, IFRS 12, IAS 28 – <i>Investment entities: applying the Consolidation Exception</i> (amendment)	1 January 2016 (not yet EU adopted)	With a view to include in the 2017-18 FReM (subject to EU adoption and review)	These amendments clarify the requirements when accounting for investment entities.	HM Treasury and the other Relevant Authorities will review the implications of these changes and follow due process nearer to the EU adoption date. Any substantive changes to the FReM will follow normal due process.