Annex A

Understanding the public sector landscape: initial impact assessment of IFRS 9 *Financial Instruments*

1. The IFRS 9 technical working group has focussed discussions on the three phases of the standard (classification and measurement of financial assets and liabilities; impairment methodology; and hedge accounting), transition arrangements and disclosures, the likely impact on budgets and Estimates, and on the existing IAS 39 interpretations in the FReM. Key areas of discussion from the technical working group have been included below.

Classification and measurement

a. Financial Assets

2. IFRS 9 applies a single classification and measurement approach to all types of financial assets, thus eliminating the complex requirements for bifurcating of hybrid financial assets; the entire hybrid instrument is assessed for classification and embedded derivatives are no longer separated from financial asset hosts. IFRS 9 replaces most of the guidance in IAS 39 and has changed the categories for classifications for financial instruments.

3. The measurement categories for financial assets within the scope of IFRS 9 reflect the nature of their cash flows (the contractual cash flow test) and the way they are actually managed as a group (the business model test), not how an individual asset is managed, and they are:
    a. Financial assets measured at amortised cost;

    b. Financial assets measured at fair value through other comprehensive income (with differences in treatment for debt and equity); and

    c. Financial assets measured at fair value through profit or loss.

4. Discussions by the technical working group have identified that:
    a. Views from the private sector are still evolving regarding implementation of IFRS 9 and concerns and issues are still being identified with guidance being sought from the IASB and the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).

    b. The classification and measurement of financial assets is a sizeable change under the new standard as it is a different approach to what has previously been used under IAS 39 – i.e. a move from rules-based categories to a principles-based approach to classification - however, the new impairment methodology is the most significant change of IFRS 9.

c. Preparers should not start from the assumption that there will be an effortless mapping from IAS 39 and that they should be considering how instruments are managed and the contractual cash flows (and variations of cash flows) of the instruments.

d. Preparers should be aware of the difference between measurement at fair value through other comprehensive income for debt instruments and equity instruments and the differences to "Available for Sale" under IAS 39.

e. Embedded derivatives included in non-financial contracts, for example contracts for the delivery of goods and services, will not need to be separated from the host contract under IFRS 9 if they do not need to be separated under IAS 39.

5. **Will the new classification and measurement approach have a significant impact (including on budgetary control totals and Estimate) on your department? If so, why? If not, why not, and what alternatives do you propose?**

6. **Do you have any lending arrangements which do not meet the IFRS 9 contractual cash flow test (of solely payments of principal and interest)? If so, how material are these to your department and the public sector?**

7. **Do you have any financial assets where there is no active market? If so, how material are these in nature and quantum to your department and the public sector?**

b. Financial Liabilities

8. IFRS 9 carries forward unchanged almost all of the accounting requirements from IAS 39 for financial liabilities. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes (i.e. the effect) in own credit risk. The final standard has responded to longstanding concerns about the volatility that occurs in profit or loss due to changes in an issuer's own credit risk when non-derivative financial liabilities are measured at fair value.

9. Financial guarantee contracts (FGCs) were discussed by members of the technical working group. Some FCGs result in the transfer of significant insurance risk and thus meet the definition of 'insurance contract' under IFRS 4 *Insurance Contracts*. If a FCG is not an insurance contract as defined in IFRS 4 it should be within the scope of IAS 39, however, if a department issuing FGCs has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, it may elect to apply either IAS 39 or IFRS 4 to such FGCs. This election can be made on a contract-by-contract basis and it is irrevocable.

10. An election to account for FGCs under IFRS 4 typically results in them being accounted for in a similar way as they would under IAS 37 *Provisions* and hence initial recognition is not at fair value. However, the new insurance standard[1] currently being developed by the IASB may have different measurement requirements and these may need to be considered when accounting for FGCs.

11. **Has your department previously asserted that it regards FGCs as insurance contracts and if so has your department elected to account for them under IFRS 4? Will your approach change under IFRS 9? If so, why? If not, why not, and what alternatives do you propose?**

Impairment methodology

12. IFRS 9 provides 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 to reflect changes in the credit risk of financial instruments.

13. IFRS 9 contains a forward looking 'expected-loss' impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements such as, but not limited to: trade receivables; lease receivables within scope of IAS 17 *Leases;* and contract assets within scope of IFRS 15 *Revenue from contracts with customers*. The main difference in scope to IAS 39 is that the measurement for certain loan commitments and FGCs is based on the IFRS 9 impairment requirements rather than those of IAS 37.

14. The new model requires that an impairment allowance, for expected credit losses, be raised even where no evidence of deterioration is present. When a financial asset, excluding purchased or originated credit-impaired financial assets, is first recognised a 12-month expected loss allowance is recognised (stage 1 of the model) and a provision, debited to the profit or loss, will be recognised; leading to a 'day-one' provision.

15. If a significant increase in credit risk occurs, the 12-month expected loss allowance moves to an allowance for lifetime expected losses (stage 2 of the model) thereby increasing the amount of impairment recognised. Stage 3 of the model becomes applicable when there is objective evidence of impairment, mirroring an incurred loss under IAS 39, and the financial asset has become credit impaired. If following the simplified approach (for trade receivables, contract assets and lease receivables) the impairment allowance is for lifetime expected losses.

16. An entity should use all reasonably available information to determine if deterioration has occurred and the 12-month / lifetime expected credit losses it expects will be incurred. Under IFRS 9 an entity is to base the measurement of expected credit losses on reasonable and supportable information available

[1] The new standard is expected to be published in 2016 with the effective date subject to IASB deliberations.

without undue cost or effort; this may include a variety of historical, current and forecasting information.

17. Discussions by the technical working group have identified that:
    a. Under IFRS 9 there is a shift from the incurred loss model to the expected loss model and it is important for preparers to understand the concept of the 12 month expected loss allowance – i.e. that it is not the loss expected to occur in the next 12 months but it is calculated as the loss over the life of the instruments as a result of as loss event in the next 12 months.

    b. The impairment model has a has a broader scope than IAS 39, for example written loan commitments, FGCs and contract assets are in scope.

    c. Preparers should be aware of the significant difference in data collected and used in the new impairment model – i.e. if a provision matrix has previously been used then under IFRS 9 it needs to incorporate forward looking data and if basing assessments on historical default rates an assessment needs to be made on how this data was collected and whether it can be applied prospectively.

    d. Preparers also need to have an understanding of how the new impairment model will impact profit or loss and the differences from IAS 39, for example, stage 3 of the model is similar to the IAS 39 incurred loss model in that the trigger is consistent but presenting the interest income on a net basis in stage 3 is a difference compared with the gross basis of stage 2 under IFRS 9. Measurement of losses may also be different under the new model.

    e. For purchased and originated credit-impaired financial assets, a 'day 1 loss' is not recognised because the asset is credit-impaired at initial recognition. For these assets, the estimated cash flows used to calculate the (credit-adjusted) effective interest rate at initial recognition incorporate lifetime expected credit losses.

    f. Preparers should follow the output from the ITG, particularly if regarding "significant increase" as the standard has been issued deliberately vague on this aspect where use of judgement is required.

18. **If you have lending arrangements, are they subject to material credit risk particularly in light of the new impairment methodology of IFRS 9? If so, why? If not, are you certain of your assumption?**

19. **Do you suspect you may have originated credit impaired assets which would be subject to the different approach to impairment under IFRS 9? If so, how material are they in nature and quantum and what is your rationale for determining they are originated credit impaired assets?**

20. Do you have any material lending arrangements with other departments? If so, how material are they in nature and quantum?

21. Do you expect the IFRS 9 impairment model to have a significant impact on your department? If so, why? If not, why not, and what alternatives do you propose?

22. Do you have significant financial assets/liabilities with other central departments? If so, what are your views on the impairment model with regards to these intra-government balances?

23. Do you have processes and systems in place to enable your department to model forward looking expected credit losses?

24. The standard does not define 'significant' and so judgement is needed to determine whether financial assets should be transferred between impairment allowance categories. What does 'significant increase' mean to your department?

25. Do you have significant trade and other (including lease) receivables? Do you have any contract assets within the scope of IFRS 15? Would you choose to use the simplified approach offered under IFRS 9 for these items? What impact will the change to the impairment methodology, which applies to these assets, have on your department? If so, why? If not, why not, and what alternatives do you propose?

Hedge accounting

26. IFRS 9 introduces a reformed model for hedge accounting which principally aims to align the accounting treatment with risk management activities; hedging financial and non-financial exposures. The standard moves away from a very rules-based approach and has also increased a preparer's ability to account for hedges of non-financial items which will allow hedge accounting for some common hedging strategies that currently fail to qualify.

27. Most members of the technical working group do not undertake hedging accounting and so the changes as a result of IFRS 9 will not have a significant impact on their departments.

28. Does the reformed model for hedge accounting impact your department? If so, why? If not, why not, and what alternatives do you propose?

Transition arrangements

29. When a department transitions to and adopts the classification and measurement approach of IFRS 9 it is required to provide the disclosures as per IFRS 7 *Financial Instruments: Disclosures* but does not need to restate prior periods. IFRS 9 is to be applied retrospectively, subject to some transitional reliefs in particular circumstances. The hedge accounting requirements of IFRS 9 are generally applied prospectively with some limited retrospective application.

30. Regardless of whether an entity chooses to restate prior periods there are transitional financial statement disclosures that are required; however, these do differ depending on the approach taken. Where an entity makes use of the transitional reliefs associated disclosures are required.

31. There are 2 high level options for transition to IFRS 9:

Option 1: Retrospective application with restatement

32. Prior periods may be restated if it is possible to do so without the use of hindsight. If a department restates prior periods, the restated financial statements must exhibit all the requirements of IFRS 9. It is worth noting that restatement is not required for comparative periods for financial instruments that have been derecognised prior to the date of initial application.

33. If it is impracticable for an entity to apply the effective interest rate retrospectively and the restatement approach is adopted, under IFRS 9 the entity is required to use the fair value of the financial asset/liability at the end of each reporting period presented as the gross carrying amount of the asset or amortised cost of the liability. Additionally, the fair value of the asset/liability at initial application date of IFRS 9 will become the new gross carrying amount or new amortised cost.

34. If the restatement approach is applied then IAS 1 *Presentation of Financial Statements* will apply and so a third statement of financial position may need to be presented when an accounting policy is applied retrospectively and there is a material effect as a result of the change. Furthermore restating comparatives also means providing restated information for all relevant notes.

Option 2: Retrospective application but no restatement

35. If an entity elects not to restate comparative periods, quantification of adjustments is still necessary in order to determine the transition adjustments in the opening balances in reserves/other components of equity, as appropriate. The difference between the previous carrying amounts and the new carrying amounts is recorded in the opening balances of the annual period including the initial application date.

HM Treasury proposal

36. In order to improve consistency across the public sector and to better facilitate the consolidation of public sector entities within the Whole of Government Accounts (WGA), HM Treasury propose that the following:

37. **Option 2: Retrospective application but no restatement** of prior year financial statements when adopting the classification and measurement approach and impairment methodology of IFRS 9 at date of initial application; and **Prospective application** for hedge accounting requirements if applying the requirements under IFRS 9.

38. Discussions by the technical working group have identified that:
    a. Departments should be considering the conversion disclosures they currently include within their resource accounts relating to standards not yet adopted and leading up to the implementation date of IFRS 9. Departments should be mindful of making assertions before understanding the full impact of transitioning to IFRS 9.

    b. The NAO are supportive of an agreed approach across the public sector regarding transition but will not prescribe one approach over another.

    c. The working group agreed that the more suitable and accessible option is best for the public sector and considerations of cost and effort should be regarded.

    d. Transparency to Parliament was discussed and whether restating would provide any meaningful information. The working group considered that comparability may be impaired if the restatement option is chosen; that not restating would be more cost-effective and efficient; and that it may be impractical not to utilise hindsight when restating.

    e. Some departments with large group accounts would prefer not to restate on the basis of impracticability and the pressure this would place on the year end accounts process for consolidating the group accounts.

39. **Do you agree with the proposed approach above and what impact will it have on your department? If you do agree, why? If not, why not, and what alternatives do you propose?**

40. **Do you have any comments on the disclosure requirements from a public sector perspective and the implications for reporting entities?**

Budgets and Estimates

41. The new standard may impact on the way departments account for credit losses on their loan portfolios. Provisions for bad debts will be larger in the first year of introduction due to recognitions of 12-month expected credit losses. There is unlikely to be an impact on DEL, or the National Accounts, due to these fair value movements until the loss actually crystallises.

42. **Do you foresee a significant impact on your department's budget and Estimate due to the introduction of the new impairment methodology? If so, why? If not, why not, and what alternatives do you propose?**

43. **Do you expect the impairment model to present an additional challenge to forecasting AME spending? If so, why? If not, why not, and what alternatives do you propose?**

44. **Do you have any other comments relating to the resulting impact on budgets and Estimates due to IFRS 9?**

Existing interpretations of IAS 39

45. *Any financial instrument that is not held in furtherance of the department's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authorities.*

46. *Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position.*

47. **Do you agree with retaining the existing interpretations (para. 45) and (para. 46) above? If so, why? If not, why not, and what alternatives do you propose?**

48. *PDC should be reported at historical cost, less any impairment.*

49. The FReM contains an interpretation that states that PDC is not defined as an equity instrument under IAS 32 *Financial Instruments: Presentation* (as it does not meet the definition of a financial instrument under IAS 32 as it is a form of financing) and should be reported at historic cost, less impairment. IFRS 9 does not change the definition of a financial instrument, and PDC should therefore remain outside of its scope. Thus, the existing FReM interpretation will need to be carried forward and the extant treatment of PDC maintained.

50. **Do you agree with retaining the existing interpretation (para. 38) above? If so, why? If not, why not, and what alternatives do you propose?**

51. *Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (currently 2.2%) as applied to the flows expressed in current prices.*

52. HM Treasury set a number of discount rates centrally for financial reporting purposes. One of the rates set is the financial instrument discount rate and the FReM currently requires that when discounting future cash flows to measure the fair value of a financial asset, the higher of HM Treasury's discount rate (2.2% real) and the rate intrinsic in the instrument should be applied. HM Treasury have commission the Government Actuary's Department to review this rate and indicative consultations with them have the updated rate at 0.75% real. HM Treasury are considering updating the rate effective from 2015-16.

53. Are there any barriers which your department will not be able to overcome due to the rate update? If so, why? If not, why not, and what alternatives do you propose?

54. Is the current interpretation (para. 51) above still relevant to the public sector? If so, why? If not, why not, and what alternatives do you propose?

Implementation timetable

55. HM Treasury is proposing and working to the following timetable for implementation of IFRS 9:

November 2015	Update paper to be presented to the FRAB on the progress and issues arising from the work of the technical working group and feedback from the initial public sector consultation exercise.
2016	Exposure Draft for wider consultation on the impact of this standard.
Spring 2017	Further opportunity to consider any adaptations or other interpretations.
June 2017	FRAB meeting for further consideration if needed. Consider 2017-18 FReM.
Summer 2017	Opportunity to amend FReM extract if needed.
November 2017	FRAB meeting to approve FReM.
December 2017	2017-18 FReM published.
January 2018	IFRS 9 implementation date.
2018-19	UK public sector implementation of IFRS 9.

56. Do you agree with the proposed implementation timetable and effective date for IFRS 9? If so, why? If not, why not and what alternative do you propose?

57. IFRS 9 and IFRS 15 are both currently timetabled to be implemented in 2018-19. How significant will the implementation of both standards at the same time be to your organisation and why?

58. Do you consider that there will be any other particular application issues not raised in any questions above? If so, why? If not, why not, and what alternatives do you propose?

ANNEX B

Understanding the public sector landscape: initial impact assessment of IFRS 15 *Revenue from Contracts with Customers*

1. IFRS 15 *Revenue from Contracts with Customers* seeks to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related IFRIC and SIC interpretations. IFRS 15 introduces a 5 stage process for the recognition and measurement of revenue.

2. Discussions of the technical working group have identified that:

    a. Views from the private sector are still evolving regarding implementation of IFRS 15 and concerns and issues are still being identified with guidance being sought from the IASB. IASB have issued a clarification to IFRS 15 exposure draft in July 2015, with consultation responses due October 2015.

    b. Greater scope for judgement was considered under IAS 18, whereas IFRS 15 is a significantly larger standard with detailed criteria and application guidance. As a result, the level of implementation required by entities is likely to be extensive.

    c. Under IAS 18, revenue is recognised when the risks and rewards are transferred whereas under IFRS 15, it is at the point of control passing. Furthermore, IFRS 15 requires this assessment to be undertaken for each performance obligation within the contract. This may impact on the timing of revenue recognition.

Identifying a contract with customer

3. In order for a contract to be within the scope of IFRS 15, all of the following criteria must be met:
    a. The parties have approved the contract (in writing, orally or in accordance with their customary business practices) and are committed to perform their respective obligations;

    b. The entity can identify each party's rights regarding the goods and services to be transferred;

    c. The entity can identify the payment terms;

    d. The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract; and

    e. It is probable the entity will collect the consideration to which it will be entitled to.

4. IFRS 15 offers criteria to recognise revenue where there are no contracts with customers but consideration is received. The standard requires there to be a) no further performance obligations to transfer goods or services or b) the contract is terminated and under both the consideration is non-refundable.

5. The technical working group have identified:
   a. In some cases it may be difficult to identify if there is a customer or a contract in the public sector context.

   b. There are significant levels of monetary and non-monetary transactions between departments and other public bodies and all should consider the extent to which IFRS 15 will apply in these situations.

   c. The issue around the extent to which the receipt of revenue is due to a willing agreement by the customer versus being mandated to pay through statutory means, and how IFRS 15 may apply in these situations.

   d. Some concerns between fees and charges requirements of Managing Public Money (MPM) and its consistency with IFRS 15 criteria.

   e. There may be audit implications for any contracts that are not formal or written but based on verbal or customary practices and so departments should begin engaging with the NAO early enough to mitigate issues during the year end audit process.

6. **Do you have any examples of where consideration is received for where there are no obligations? If so, how material are they to your department? How many can be considered to be as a result of statutory obligations for the customer provide consideration?**

7. **Do you foresee there being an impact on fees and charges requirements per MPM and the introduction of IFRS 15? If so, why and how material is the impact to your department and the public sector? If not, why not? What alternative do you propose?**

Identifying Performance Obligations

8. IFRS 15 introduces a concept of identifying performance obligations which are promises in a contract to transfer goods or services that are distinct. In determining whether a good or service is distinct, an entity needs to consider if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer. An entity also needs to consider whether the promise to transfer the good or service is separately identifiable from other promises. If a promised good or service is not distinct, an entity is to combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. The recognition of revenue will be based on the satisfaction of these individual performance obligations.

9. **Do you foresee any difficulties in identifying distinct performance obligations in contracts in relation to your department? If so why, if not why not, and what alternative would you propose?**

Identifying Transaction Price

10. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price is determined under the terms of the contract and the entity's customary business practices.

11. The transaction price may be a fixed amount of consideration or include estimates of consideration that is variable or consideration in a form other than cash. Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Adjustments to the transaction price are also made for the effects of financing (if significant to the contract) and for any consideration payable to the customer.

12. **Do you foresee any difficulties in identifying the transaction price for your department? If so, why? If not, why not, and what alternatives do you propose?**

Allocating Transaction Prices to Performance Obligations

13. IFRS 15 requires the transaction price to be allocated to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer

14. An entity is required to allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service. If a stand-alone selling price is not observable, the entity would estimate it. IFRS 15 details examples of methodologies an entity could use to determine the stand-alone price.

15. The transaction price may include a discount or a variable amount of consideration that relates entirely to a specific part of the contract. The requirements specify when an entity should allocate the discount or variable consideration to a specific part of the contract rather than to all performance obligations in the contract.

16. The technical working group identified:
    a. There are likely to be more contracts where the entity is the sole market provider compared with the private sector. This may cause difficulties in establishing a stand-alone price for each distinct good or service.

b. There may be difficulties in applying the transaction price particularly to complex projects and Private Finance Initiatives (PFIs).

17. **Do you foresee any difficulty in allocating transaction prices to performance obligations within your department? If so why, if not why not and what alternative do you propose?**

Satisfaction of Performance Obligations

18. The standard requires revenue to be recognised when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

19. For satisfaction over time, the standard specifies one of the following 3 criteria needs to be met:
    a. Customer simultaneously receives and consumes the benefits provided;

    b. Entity's performance creates or enhances an asset that the customer controls as it is being created or enhanced; or

    c. The entity's performance does not create an asset within an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

20. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. For a performance obligation satisfied over time, an entity would select an appropriate single method of measuring of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

21. **Does the satisfaction criteria significantly alter the revenue profile of your department? If so, how material will this change be to your department?**

22. **Do you foresee there being any significant impact on the accounting for intra-group and/or intra-government transactions? If so why, if not why not?**

Current guidance within the FReM

23. The FReM currently provides guidance for revenue collected on behalf of the Consolidated Fund but does not provide adaptations or interpretations for IAS 18:
    a. Taxes and duties: to recognise taxes when a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity; and

    b. Fines and penalties: to recognise fines and penalties at the time that the fine or penalty is imposed and becomes receivable by the entity. Where on appeal or for legal reasons the penalty is cancelled, the amount receivable is derecognised at the date of successful appeal. Where a financial penalty

is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially but is derecognised if the option of the non-financial penalty is taken up. Where fines and penalties are uncollectible or, for policy reasons, (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

24. HM Treasury proposes to retain the above when implementing IFRS 15.

25. **Do you agree the above guidance remains appropriate due to the nature of this type of revenue within the public sector context? If so why, if not why not and what alternative do you propose?**

26. **Does your department have any revenue from contracts with customers that are classed as taxes by the ONS? How material are they to your department?**

27. **Are there any other interpretations and/or adaptations you believe are required to be included in the FReM due to the introduction of IFRS 15 in the public sector?**

Budgets and Estimates

28. The new standard may affect the timing of revenue reported in budgets and Estimates. Dependent on the performance obligations identified and the satisfaction criteria adopted, departments may see revenue being recognised earlier or over multiple periods causing an impact to DEL. The technical working group highlighted this may be particularly noticeable for revenue arising from work in progress.

29. **Do you foresee a significant impact on your department's budget and Estimate from applying the satisfaction of performance obligations' criteria to recognise revenue over time or at a point in time? If so, why? If not, why not, and what alternatives do you propose?**

30. **Does your department undertake work in progress which is material to your budget and resource accounts? Do you foresee there being a significant issue in applying IFRS 15 for revenue arising from work in progress?**

31. **Do you have any other comments relating to the resulting impact on budgets and Estimates following implementation of IFRS 15?**

Disclosures

32. IFRS 15 requires disclosures to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Entities will be required to disclose:
    a. Revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;

b. Contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;

c. Performance obligations, including when the entity typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract;

d. Significant judgements, and changes in judgements, made in applying the requirements; and

e. Assets recognised from the costs to obtain or fulfil a contract with a customer.

33. These disclosures are similar to those already required under IAS 11.

34. **Are there any disclosure requirements in the standard which you believe are not applicable to the public sector? If so why, if not why not and what alternatives do you propose?**

35. **Do you have any other comments on the disclosure requirements from a public sector perspective and the implications for reporting entities?**

Transition Arrangements

36. IFRS 15 is to be applied retrospectively, subject to some transitional reliefs in particular circumstances. There are 2 transition options identified in IFRS 15:

Option 1: Retrospection application with restatement

37. Prior periods may be restated if it is possible to do so without the use of hindsight. If an organisation restates prior periods, the restated financial statements must exhibit all the requirements of IFRS 15. The standard does allow the use of some expedients for contracts that are completed under IAS 18 or IAS 11 at the point of transition and some disclosure exemptions.

38. Disclosures will be required in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. If any expedients are used, entities will be required to disclose which expedients have been used and, to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

Option 2: Retrospective application with no restatement

39. If an entity elects not to restate comparative periods, quantification of adjustments is still necessary in order to determine the transition adjustments in the opening balances in reserves/other components of equity, as appropriate.; the difference between the previous carrying amounts and the new carrying amounts is recorded in the opening balances of the annual period including the initial application date.

40. Additional disclosures are required with this option and consist of:
    a. The amount by which each financial statement line is affected in the current reporting period by the application of the standard as compared to IAS 11, IAS 18 and related interpretations that were in effect before the change; and

    b. An explanation of the reasons for significant changes identified in the above.

41. It should be noted that entities will be required to calculate the restated amounts for the prior period comparatives regardless of which method of transition is adopted.

42. In order to improve consistency across the public sector and to better facilitate the consolidation of public sector entities within the Whole of Government Accounts (WGA), HM Treasury propose: **Option 2 - Retrospective application with no restatement.**

43. The transition working group identified the following in relation to transition:
    a. There may be difficulties in fully restating where public sector bodies have complex long term contracts.

    b. For departments the difference between restated and non-restated figures may not be material and therefore the additional work required to prepare restated financial statements may not be necessary. Furthermore, not restating may be more efficient to implement at a group level where there are a significant levels of components to be consolidated.

    c. Preparers should be considering the cost and time implications of introducing IFRS 15 as well as considering the level of preparatory work, systems and processes required.

44. **Do you agree with the proposed approach above and what impact will it have on your department? If you do agree, why? If not, why not, and what alternatives do you propose?**

Implementation timetable

45. HM Treasury is proposing and working to the following timetable for implementation of IFRS 15:

November 2015	Update paper to be presented to the FRAB on the progress and issues arising from the work of the technical working group and feedback from the initial public sector consultation exercise.

2016	Exposure Draft for wider consultation on the impact of this standard.
Spring 2017	Further opportunity to consider any adaptations or other interpretations.
June 2017	FRAB meeting for further consideration if needed. Consider 2017-18 FReM.
Summer 2017	Opportunity to amend FReM extract if needed.
November 2017	FRAB meeting to approve FReM.
December 2017	2017-18 FReM published.
January 2018	IFRS 15 implementation date.
2018-19	UK public sector implementation of IFRS 15.

46. Do you agree with the proposed implementation timetable and effective date for IFRS 15? If so, why? If not, why not and what alternative do you propose?

47. IFRS 9 and IFRS 15 are both currently timetabled to be implemented in 2018-19. How significant will the implementation of both standards at the same time be to your organisation and why?

48. Do you consider that there will be any other particular application issues not raised in any questions above? If so, why? If not, why not, and what alternatives do you propose?