HM TREASURY

FRAB 128 (02)
24th November 2016

Financial Reporting Advisory Board Paper

IFRS 9 *Financial Instruments* – Exposure Draft responses

Issue:	At the June meeting, HM Treasury provided the Board with a revised version of the Exposure Draft (ED) for consideration, in advance of the publication and consultation exercise which took place over the summer. This paper provides the Board with a review of the ED responses, issues outstanding and the proposed next steps.
Impact on guidance:	None at this stage. The FReM will be updated in due course for a 2018-19 implementation.
IAS/IFRS adaptation?	None proposed at this stage.
Impact on WGA?	None at this stage, but transition, intra government balances and disclosure requirements will affect how IFRS 9 is applied in WGA.
IPSAS compliant?	Prior to IFRS 9, both the recognition and measurement of financial instruments were similar under IFRS and IPSAS. Changes to IPSAS in response to IFRS 9 are not yet known. IPSASB are currently consulting on public sector financial instruments.
Interpretation for the public sector context?	HM Treasury propose to retain the existing IAS 39 interpretations when IFRS 9 is introduced in the public sector.
Impact on budgetary regime and Estimates?	IFRS 9 could increase volatility in departmental AME budgets but is not expected to have a significantly different DEL impact to IAS 39.
Alignment with National Accounts	Initial discussions with the ONS indicate IFRS 9 is broadly aligned with the National Accounts treatment.
Recommendation:	HM Treasury request that the Board: • consider the responses to the ED; • provide views on any outstanding issues and questions; and • agree the proposed next steps.
Timing:	No changes are expected to be made to the FReM until the 2018-19 financial year.

DETAIL

Background

1. The International Accounting Standards Board (IASB) issued the final version of 'IFRS 9 Financial Instruments' in July 2014. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is due for implementation within the public sector from 1 April 2018 (2018-19).

2. At the last meeting, HM Treasury provided the Board with a revised version of the Exposure Draft (ED) for consideration, in advance of the publication and consultation exercise which took place over the summer. This paper provides the Board with a review of the ED responses, issues outstanding and the proposed next steps.

Exposure Draft (ED) responses

3. HM Treasury published ED 16 (01) on IFRS 9 *Financial Instruments* on the 9th August 2016 and received 23 responses[1] to the ED from:

    - 19 central government departments[2];
    - 1 executive non-departmental public body;
    - The Whole of Government Accounts (WGA) team; and
    - 2 professional institutions.

4. The full responses can be found can be found in **Annex A**. A summary of the key issues and areas for consideration raised as a result of the ED process are detailed below.

Key issues and areas for consideration

5. The key issues and areas for consideration raised as a result of the ED process are:
    - the new classification and measurement approach;
    - the new impairment methodology;
    - intra-government balances;
    - the simplified approach to impairment;
    - financial liabilities;
    - the changes to hedge accounting;
    - the impact on financial guarantee contracts;
    - the transition approach;
    - the proposed effective date for implementation in the public sector;
    - the new disclosure requirements;
    - FReM interpretations and adaptations of IFRS 9; and
    - Implications for the Whole of Government Accounts (WGA).

[1] Responses were received from: The Office for National Statistics; Northern Ireland departments; Department for Communities and Local Government (including the Homes and Communities Agency); Department for Education; UK Export Finance; Department for Culture Media and Sport; HM Revenue and Customs; Department of Health (also responding on behalf of NHS bodies); Department for Environmental and Rural Affairs; Department for Transport; Ministry of Defence; Home Office; Ministry of Justice; Department for Business, Energy and Industrial Strategy; HM Treasury; Department for Work and Pensions; Environment Agency; The Institute of Chartered Accounts in England and Wales; and Grant Thornton.

[2] Three respondents asked for their submissions to be kept confidential.

The new classification and measurement approach

6. All respondents agreed to the proposed amendments to the FReM, which were communicated in the ED, as far as they are applicable to IFRS 9. In the main, it is believed that application of IFRS 9 will drive improvements in accounting for financial instruments and reduce unnecessary complexity.

7. It was noted that a substantial amount of work will be needed to introduce IFRS 9 into the public sector due to the resulting change in accounting treatment, primarily the new classification and measurement methodology and the new financial instrument categories.

8. For example, the Department for Communities and Local Government's early assessment is that circa £6 billion (by March 2017) of investments made under the Help to Buy: Equity Loan scheme, which are currently held at fair value through other comprehensive income, will be accounted for at fair value through profit or loss under IFRS 9. This may introduce some volatility in net expenditure as a result of fluctuating market prices.

9. These changes will need to be clearly explained to the users of the annual reports and accounts. As expected, the request for application guidance to be issued to support implementation and consistency within the public sector was raised.

The new impairment methodology

10. Most respondents to the ED conveyed that the greatest challenge of IFRS 9 relates to the new impairment model, specifically the need to include forward looking data in impairment models. Although they commented that this change will be significant and have an impact on resources – i.e. processes, systems and data collected - most respondents accepted the merits behind the changes which address the weaknesses in the existing incurred loss model that were observed in the private sector during the financial (banking) crisis.

11. The Department for Education (DFE) raised a concern that applying the impairment model would not be possible for certain financial instruments, for example, student loans. The policy may be set up to be deliberately blind to the credit worthiness of the loan recipient and any changes (deterioration or improvement) in the individual's credit quality would not directly correlate with an improvement in the student loan repayment amount because collection is taken directly from a borrower's income.

12. HM Treasury holds the view that the principles of IFRS 9 apply in the scenario above and that DFE should engage early with the HM Treasury Government Financial Reporting team and line auditors to agree how to adapt the current impairment model, which predicts future cash flows based on OBR, RPI and growth earnings forecasts, to take account of the specific requirements of IFRS 9.

13. Some respondents to the ED also expressed concerns about the impact of each department using their own judgement and assessment in determining loss allowances and credit worthiness, thereby reducing the consistency in treatment across government. DFE explicitly asked for guidance, agreed with the NAO, on how to determine and assess credit worthiness across the public sector.

Intra-government balances

14. IFRS 9 is clear that a stage 1 impairment allowance (12 month expected credit losses) would be recognised on all financial assets subject to impairment accounting, and that subsequently the lender would be required to monitor the credit worthiness of the borrower.

15. Theoretically the impairment model should include intra-group and intra-government balances. For these balances, the stage 1 loss allowance is likely to add complexity to the accounting as additional resource would be needed to determine these allowances and to justify intra-group and intra-government initial 12 month expected credit losses. There is also likely to be difficulty in determining the credit worthiness of other government entities, where separate credit ratings are not available, and this could result in inconsistent treatments across the public sector.

16. The WGA consolidation and the departmental group consolidation are likely to be further complicated as the issuer of the financial asset would recognise the stage 1 impairment, reducing the carrying value of the financial asset, but the counterparty would not recognise a reduction in its liability. In addition, these stage 1 impairments would need to be reversed out at group level and at the WGA level.

17. HM Treasury notes that these issues are not wholly unique to the public sector and would be something the private sector would also need to contend with. It should also be noted that the Board have already previously taken the view that the requirements of the Standard, with regards to the new impairment model, should be applied without interpretation or adaptation in the public sector.

18. However, HM Treasury is sympathetic of the added complexity of calculating loss allowances on balances within the public sector on the basis that:

    - it seems illogical and would look incongruous for a government body to recognise an impairment allowance against the government's own borrowings, i.e. an impairment allowances against its own issued debt;
    - determining this value is made more complicated within a departmental group and across departments as individual departments are not rated by credit rating agencies;
    - for transactions between Crown bodies there is no legal distinction between the individual entities as they are in essence the same organisation;
    - there are other protections in place to mitigate credit risks. For example, the sponsor department is ultimately responsible for any borrowings undertaken by an entity within its consolidation group and HM Treasury would look to the sponsor department in the first instance to cover any losses; and

- in some circumstances legal vires prevent entities from accepting losses on lending. For example, some of the Exchequer Funds, including the Public Works Loan Board (PWLB), do not have the legal power to write down their assets. Specifically, the PWLB lends funds to local authorities and is not empowered to write off any loan, but legally must use the tax raising powers of the local authority to ensure repayment of the loan. An impairment allowance is therefore not appropriate in such a situation.

19. **HM Treasury therefore proposes the following options, as possible adaptations of the Standard for the public sector context, for the Board's consideration:**

    - **Option 1** - IFRS 9 is applied in full – i.e. public sector entities are to apply the new impairment model in full and without any public sector interpretations or adaptations;
    - **Option 2** – Option 1 but including application guidance on how to assess and determine credit worthiness of other public sector organisations;
    - **Option 3** – that balances between core central government departments and any balances held with the Central Funds are excluded from recognising stage 1 impairments;
    - **Option 4**[3] - that intra-group balances (i.e. within a departmental consolidation boundary), balances between central government entities, and any balances held with the Central Funds are excluded from recognising stage 1 impairments; and
    - **Option 5**[4] – extending option 4 to also include balances with local government entities – i.e. extending to encompass all balances within the WGA boundary except for those with market bodies (public corporations).

20. **Do the Board have a preferred option which is most applicable in the public sector context?**

The simplified approach to impairment

21. For short-term trade receivables, an entity should **always** recognise a loss allowance for an amount equal to lifetime expected credit losses. This applies specifically for trade receivables that do not constitute a financing transaction in accordance with IFRS 15 *Revenue from Contracts with Customers*. The bulk of central government financial instruments are made up of cash, trade receivables and payables.

22. For long-term trade receivables and lease receivables, an entity can **choose** an accounting policy to recognise a loss allowance at an amount equal to lifetime expected credit losses. This approach is specifically for trade receivables that constitute a financing transaction in accordance with IFRS 15. The proposal to mandate the simplified approach was positively received by the majority of respondents to the ED as a means of improving consistency and comparability across the public sector.

[3] HM Treasury is less inclined to adopt this approach as some bodies within a consolidation group may have their own credit ratings, particularly commercial bodies, which may be a different rating to central government.
[4] HM Treasury is less inclined to adopt this approach as some local authorities do have their own credit ratings and certain other public bodies (e.g. Health Trusts) may have a different rating to central government. This may include bodies within the same consolidation group.

23. However, a few respondents held the view that entities should be allowed to decide on their preferred approach based on:

    - what is most appropriate for their circumstances;
    - differing impairment treatments as a result of differences in definitions, for example, loans compared with long-term trade receivables; and
    - reducing consolidation adjustments if arms-length bodies don't utilise the simplified approach.

24. The option to mandate the simplified model would ensure consistency in treatment across all receivables and reduce the burden to maintain and assess the credit worthiness of debtors through the different stages of the impairment model, particularly where entities hold limited financial instruments such as cash, receivables and payables. This is our preferred option.

25. **Do the Board have views on the adoption of the simplified impairment model for long term receivables?**

Financial liabilities

26. The Department for Business, Energy and Industrial Strategy (BEIS) raised a concern about determining 'own credit risk' on financial liabilities measured at fair value through profit or loss. This is linked to the issues discussed above of determining an individual public sector entity's credit worthiness and recognising intra-group and intra-government stage 1 loss allowances.

27. IFRS 9 requires that fair value changes of financial liabilities measured at fair value through profit or loss are to be split between:

    - the changes in fair value as a result of changes in the entity's own credit risk, recognised in other comprehensive income; and
    - all other fair value movements - recognised in the Statement of Comprehensive Expenditure (SoCNE).

28. Some departments, for example BEIS, hold significant financial liabilities at fair value through profit or loss. In addition to the arguments above on the merits of recognising stage 1 loss allowances on intra-group and intra-government balances, it is likely to take additional time, effort and resources for departments to determine and assess theoretical 'own credit risk' and to agree such a methodology with the NAO. Government's own credit risk should historically have been assessed to be zero as there is no history of government defaulting on its liabilities.

29. **HM Treasury therefore proposes the following options[5], as possible adaptations of the Standard for the public sector context, for the Board's consideration:**

[5] HM Treasury's preferred option will mirror paragraph 19 above.

- **Option 1** - IFRS 9 is applied in full – i.e. public sector entities are to apply paragraph 5.7.7[6] of IFRS 9 without any public sector interpretations or adaptations;
- **Option 2** – Option 1 but including application guidance on how to assess and determine 'own credit risk' in the public sector;
- **Option 3** - that liabilities between central government entities and any liabilities held with the Central Funds are assessed as having zero 'own credit risk' by the entities holding these liabilities;
- **Option 4** - that intra-group liabilities (i.e. within a departmental consolidation boundary); liabilities between central government entities; and any liabilities held with the Central Funds are assessed as having zero 'own credit risk' by the entities holding these liabilities; and
- **Option 5** – extending option 3 to also include liabilities with local government entities – i.e. extending to encompass all liabilities within the WGA boundary except for those with market bodies (public corporations) if applicable.

30. Do the Board have a preferred option which is most applicable in the public sector context?

The changes to hedge accounting

31. Hedging as a strategy is not actively encouraged in central government and no respondents to the ED undertake any macro hedging activities. Only HM Treasury (HMT), Network Rail and the Rural Payments Agency (RPA) confirmed they undertake hedge accounting. HMT and Network Rail expressed an interest in continuing to use IAS 39 for hedge accounting on the basis of there being no compelling reason to change approaches. RPA were of the view that mandating the use of IFRS 9 for hedge accounting would not cause any undue cost or effort.

32. On balance, HM Treasury propose interpreting IFRS 9 for the public sector context and mandating the use of IFRS 9 for hedge accounting as:

    - most of the basics of hedge accounting are the same under both standards;
    - this would improve consistency and comparability across central government accounts;
    - IFRS 9 may also bring some simplification regarding hedge effectiveness testing; and
    - at some stage IAS 39 will no longer be applicable and it seems sensible for departments to make a full transition to IFRS 9 in 2018-19.

33. Do the Board agree with HM Treasury's proposal to interpret IFRS 9 to mandate the use of IFRS 9 for hedge accounting?

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[6] IFRS 9, para. 5.7.7: An entity shall present a gain or loss on a financial liability that is designated as at fair value through profit or loss in accordance with paragraph 4.2.2 or paragraph 4.3.5 as follows: (a) The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income (see paragraphs B5.7.13–B5.7.20), and (b) the remaining amount of change in the fair value of the liability shall be presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss (in which case paragraph 5.7.8 applies).

The impact on financial guarantee contracts

34. UK Export Finance (UKEF) were the only respondent to the ED who are likely to be impacted by the IASB's amendments to IFRS 4 *Insurance Contracts*, as a result of the introduction of IFRS 9, and the new insurance contracts Standard which is expected to be issued later this year (2016). A paper[7] was presented to the Board at the March 2016 FRAB (FRAB 126) on the IFRS 4 amendments.

35. In UKEF's 2015-16 Annual Report and Accounts the department reported circa £17.2 billion of 'exposure' to financial guarantees and insurance contracts. £16.9 billion is accounted for under IFRS 4 and £0.3 billion as financial guarantees applying IAS 39. HM Treasury and UKEF are currently working together to fully understand the implications of the above changes on UKEF's financial instruments. UKEF will be undertaking an analysis early in 2017 to determine the impact of:

    - IFRS 9 - if the election to treat financial guarantee contracts as insurance contracts is no longer utilised;
    - the new insurance contracts Standard - once it has been issued; and
    - introducing IFRS 9 in advance of the new insurance contract Standard.

36. HM Treasury will update the Board at the March 2017 meeting on the conclusions drawn from UKEF's analysis and any proposed resulting impact on the FReM.

37. All other respondents to the ED who hold financial guarantee contracts account for these in accordance with IAS 39 and do not utilise the IAS 39 election to apply IFRS 4.

The transition approach

38. Almost all respondents agreed with the option of mandating a transition approach across the public sector. Option 2 in the ED, **retrospective application but no restatement**, is the preferred approach.

39. This approach was considered to be the most straight-forward and would improve consistency within the WGA and departmental consolidation boundaries. Only the Department for Culture, Media and Sport (DCMS) requested the flexibility to apply either approach on the basis of allowing organisations to select the best approach to suit their circumstances.

40. HM Treasury still propose to interpret IFRS 9 for the public sector context and to mandate option 2 as the transition approach to be employed across the public sector.

41. **Do the Board support HM Treasury's proposal to interpret IFRS 9 to mandate the use transition approach, specifically option 2, across the public sector?**

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[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/521722/FRAB_126__4.3__-__IFRS_4_and_IFRS9.pdf

The proposed effective date for implementation in the public sector

42. As expected, respondents to the ED noted the significant amount of work required in order to introduce IFRS 9 into the public sector. However, this is not an issue unique to the public sector and the implementation timetable seems reasonable, achievable and should remain aligned with the private sector.

43. UKEF and a Northern Ireland arms-length body queried whether delaying the implementation date for a year would be a more sensible decision. This would allow for more preparation time and for the public sector to learn from the challenges faced by the private sector. It may also allow for more useful application guidance to be issued which could incorporate genuine examples based on the private sector experience.

44. HM Treasury do not propose amending the effective date. There are already examples of application of the Standard in the private sector by early adopters. For example, the National Australia Bank have implemented AASB 9 *Financial Instruments* in their 30th September 2015 annual report and accounts[8]. The public sector should be able to adequately face implementation challenges in advance of the effective dates.

45. Do the Board have any comments to make on the proposed implementation date?

The new disclosure requirements

46. Some respondents commented that the new and amended disclosure requirements are onerous and written from a private sector perspective – i.e. to provide assurances to investors.

47. As expected a number of respondents referenced application guidance in order to implement the disclosure requirements, and the concept of materiality. The concept of materiality is clearly defined in the Conceptual Framework and has been actively encouraged by HM Treasury as a part of the Simplifying and Streamlining agenda – i.e. making accounts more accessible to users - when introduced in 2015-16.

48. HM Treasury do not intend to adapt the disclosure requirements, noting the emphasis placed on the application of materiality and for disclosures to be included for the benefit of the users of the accounts. The nature and magnitude of financial instruments is likely to vary widely across government and it seems sensible to allow department's flexibility to identify a level of disclosure appropriate to individual circumstances.

FReM interpretations and adaptations of IFRS 9

[8] https://www.nab.com.au/content/dam/nabrwd/About-Us/shareholder%20centre/documents/annual-financial-report-2015.pdf

49. All respondents to the ED agreed that the existing IAS 39 requirements should become interpretations of IFRS 9, up to the extent that they are still applicable, as they are well known and will facilitate a stable implementation approach. The Ministry of Defence (MOD) have asked for clarification of the following FReM interpretation in light of the new expected credit losses impairment model:

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

50. The FReM contains an interpretation that states that Public Dividend Capital (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) and should be reported at historic cost, less impairment. IFRS 9 does not change the definition of a financial instrument, and PDC is therefore outside the scope of the Standard, as it is a form of financing.

51. HM Treasury propose that the existing treatment for the impairment of PDC should remain and apply under IFRS 9 – i.e. an impairment assessment should be undertaken when a trigger event has been incurred and should not follow the forward-looking IFRS 9 impairment model. The justification for this is due to the uniqueness of PDC to the public sector and it being outside the scope of IFRS 9.

52. **Do the Board agree that the extant accounting for PDC should remain?**

53. DCMS, in their response, have requested an additional amendment to the FReM to be considered as a part of the IFRS 9 changes. The proposal is to value non-traded non-finance public corporations using net assets value (NAV) as a proxy for fair value.

54. The FReM currently has the following adaptation:

    - Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IAS 39. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.

55. As a result departments are currently required under IAS 39 to hold investments in these bodies at fair value. IFRS 9 also requires entities to measure all investments in equity instruments at fair value, even if those instruments are not quoted in an active market.

56. IFRS 13 *Fair Value* requires that "an entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs." (IFRS 13, para. 61) "Three widely used valuation techniques are the **market approach, the cost approach and the income approach**." "An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value." (IFRS 13, para. 62)

57. IFRS 13's fair value hierarchy does not prioritise the valuation techniques to be used; instead, it prioritises the inputs used in the application of these techniques. As such, the selection of the valuation technique (or techniques) to apply should consider the exit market (i.e. the principal or most advantageous market) investment and use valuation inputs that are consistent with the nature of the investment being measured.

58. Regardless of the techniques used, the objective of a fair value measurement remains the same, that is, an exit price under current market conditions from the perspective of market participants. HM Treasury do acknowledge NAV as a valid valuation technique, when using the cost approach and defaulting from cost of investment to NAV, and is sympathetic to the challenges faced by DCMS.

59. The established principle of only making interpretations or adaptations where these are strictly necessary for the public sector context still applies, as in the case of adapting the departmental accounting boundary in the FReM to align with the budgeting regime – i.e. the department boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies.

60. HM Treasury recognise that DCMS' challenges are in part driven by the FReM adaptations, to align with the budgeting regime (and National Accounts' treatment), but still holds the view that mandating a proxy measurement method is not consistent with the requirements and principles of the Standard. Requiring fair value measurement for investment, where there is observable market data or an intention to sell, may present a cost effective option for departments in certain situations.

61. HM Treasury do propose retaining the IAS 39 interpretations by making them interpretations of IFRS 9. HM Treasury also propose the following new interpretations to be included in the FReM when IFRS 9 is introduced:

    - The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime expected credit losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets.

    - The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk).

    - The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use

of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate).

62. **Do the Board agree with retaining the existing IAS 39 interpretations and the new proposed interpretations of IFRS 9?**

63. Most respondents to the ED found no need for further adaptations to IFRS 9 which could increase divergence and reduce comparability between the public and private sector.

64. HM Treasury are still considering, and would welcome views from the Board, on whether any adaptations to IFRS 9 are required for the public sector context with regards to:

    a. intra-group and intra-government stage 1 loss allowances; and
    b. the assessment of 'own credit risk' for intra-group or intra-government financial liabilities.

The implications for the Whole of Government Accounts (WGA)

65. The WGA team is supportive of the amendments to the FReM and the proposed effective date of IFRS 9 in 2018-19. WGA is based on IFRS and in order to maintain this principle, the public sector should continue to adopt new standards as they are introduced. Standards should only be adapted or interpreted for the public sector context where applicable.

66. The new IFRS 9 classification and measurement approach and categories may pose a challenge in terms of producing the consolidated accounts in the first year of implementation and providing comparative prior year data in the WGA publication. There is a risk at WGA level that different departments apply different business models to the same or similar portfolios of assets.

67. The new impairment model will pose a challenge when it comes to intra-government balances. A simpler approach, from a WGA perspective, would be for intra-government balances to be recognised without incurring a stage-1 loss allowance. This is based on the principle that there is no risk of default within government and these balances are ultimately eliminated and therefore would not appear in the published accounts.

68. The WGA team will continue to work with the technical working group, key departmental stakeholders and look to early adopters of the Standard in the private sector to help overcome the above and other implementation issues.

69. From a WGA perspective, consistency in accounting treatments and approaches across the public sector is always preferable. Therefore, the WGA team agree with mandating

the simplified approach to impairment, IFRS 9 hedge accounting (although this is not material to the accounts) and a single transition approach across the public sector. Consistency in treatment will help facilitate the eliminations process and will also ensure consistency in the relevant disclosure notes. The WGA team will engage early with major departments to identify any potential disclosure issues.

70. The WGA team plan to issue a draft IFRS 9 template to be included in the 2016-17 data collection tool. This will allow sufficient time to receive feedback from preparers and to apply changes to the template in advance of the implementation date.

71. **Do the Board have any comments on the WGA implications of IFRS 9?**

Issues outstanding and other considerations

IPSASB consultation on public sector financial instruments

72. Prior to IFRS 9 the recognition and measurement of financial instruments were similar under IFRS and IPSAS. Changes to IPSAS in response to IFRS 9 are not yet known.

73. IPSASB are currently consulting[9] on public sector financial instruments, specifically: Currency in Circulation; Monetary Gold; and IMF Quota Subscription and Special Drawing Rights. These public sector financial instruments are outside the scope of IFRS 9.

Budgets

74. HM Treasury have previously identified that there may be increased volatility in the departmental AME budgets compounded by the challenge in forecasting AME spending. IFRS 9 is not likely to have a significantly different DEL impact compared to IAS 39.

75. The ED process highlighted the likelihood of additional departmental AME cover being needed, particularly in the first year of implementation, as a result of the new impairment model. It is likely that the day 1 loss allowance may be materially higher if the simplified approach to impairment is mandated, as this model does not require an entity to track the changes in credit risk of certain financial assets. Instead it requires an entity to recognise a loss allowance based on lifetime expected credit losses at each reporting date, right from origination.

76. Therefore departments and HM Treasury will need to ensure the budgeting implications of IFRS 9 are taken into consideration when budgets are agreed from 2018-19 and any in-year movements are accounted for as part of the Supplementary Supply Estimates' process.

[9] https://www.ifac.org/publications-resources/public-sector-specific-financial-instruments

Supply Estimates

77. Clarification of the Supply Estimates impact of introducing IFRS 9 retrospectively was requested. In terms of Supply Estimates, voted prior period adjustments (PPA) are only required where:

   - a department changes its accounting policies on its own initiative; or
   - an error or omission has occurred.

78. Where there is a change in accounting standards there is no net impact on budgets and the Supply sought at the time was correct. Parliament is therefore content not to see a PPA on the voted part of the Estimate (i.e. Part I, Part II).

79. However, Parliament does require departments to identify the change due to adopting a new accounting standard and the impact on prior years in the 'Note F to an Estimate - Accounting Policy changes'. Further details can be found in paragraphs 3.39 – 3.40 of the Supply Estimates: a guidance manual about the content of Note F, which can be found on gov.uk."

80. As this change in accounting standard will be made across the public sector, HM Treasury will work with departments to produce a common statement and narrative explaining the change to be included in the 'Note F to an Estimate'

Revised FReM Extract

81. A revised FReM Extract can be found in **Annex B**. The changes proposed are as a result of the introduction of IFRS 9 and responses to the ED.

Next Steps

82. There are three main areas where more analysis and work is needed and on which HM Treasury will report back to the Board at the next meeting in March 2017:

   - Further analysis following the Board's consideration and discussion on a possible adaptation of IFRS 9 as a result of the complexity of calculating loss allowances on balances and 'own credit risk' on liabilities held within the public sector;
   - UKEF's analysis on the impact of IFRS 9 and the new insurance contracts' standard on its financial guarantee contracts; and
   - HM Treasury, in collaboration with the technical working group, will develop relevant application guidance for areas of particular difficulty, to ease the implementation of the standard.

Recommendation

83. HM Treasury request that the Board; consider the responses to the ED; provide views on any outstanding issues and questions raised; and agree the proposed next steps.

HM Treasury
24th November 2016

Annex A: IFRS 9 ED responses

IFRS 9 ED questions	
1	Do you have any comments to make on the new classification and measurement approach, the new impairment methodology and the changes to hedge accounting as a result of IFRS 9 being introduced into the public sector?
2	Do you agree with the proposed amendments to the accounting for financial instruments in the FReM due to the introduction of IFRS 9 in the public sector? If so, why? If not, why not, and what alternatives do you propose?
3	Will the new insurance contracts standard1 impact how your entity accounts for financial guarantee contracts? If so, why? If not why not?
4	Do you think HM Treasury should mandate the simplified approach to impairment for relevant assets (e.g. trade receivables, contract assets and lease receivables) and remove the flexibility to apply either the full or simplified model (or both) for certain assets? If so, why? If not, why not, and what alternatives do you propose?
5	Do you think HM Treasury should mandate the use of IFRS 9 for hedge accounting and remove the flexibility to continue to use IAS 39 hedge accounting treatments? If so, why? If not, why not, and what alternatives do you propose?
6	Do you undertake any macro hedging activities? If so, what are they and how do you currently account for them?
7	Do you agree with the transition approach for the proposed amendments? If so, why? If not, why not and what alternatives do you propose?
8	Do you agree with the proposed effective date for the proposed amendments? If so, why? If not, why not and what alternative do you propose?
9	Do you agree with the decision not to adapt the disclosure requirements that result from IFRS 9? If so, why? If not why not and what alternatives do you propose?
10	Do you agree with retaining the existing IAS 39 interpretations by making them interpretations of IFRS 9 once IFRS 9 is adopted in the public sector? If so, why? If not, why not, and what alternatives do you propose?
11	Are there any other comments you would like to make on the introduction of IFRS 9 into the public sector?

Respondent	Q.	Comments
Office for National Statistics (ONS)	*1*	No
	2	Yes
	3	ONS does not have any financial guarantees
	4	HMT should mandate the simplified model and remove flexibility for certain assets, as this will help to ensure consistency across government accounts
	5	Yes, again to ensure consistency across government accounts
	6	ONS does not undertake any macro hedging activities
	7	Yes
	8	Yes
	9	Yes
	10	Yes
	11	No other comments

Home Office (HO)	*Other*	The Home Office is content with the approach suggested in the ED for IFRS 9 and IFRS 15 and have no further comments to make.

Ministry of Defence (MOD)	*1*	No comments other than the comments against the specific questions below.
	2	Yes - with the proposed interpretations, this appears to strike a good balance in applying IFRS 9 but see the comments against the specific questions below.
	3	The new insurance contract is unlikely to have an impact on the MOD as the MOD has not asserted that any financial guarantee contracts are insurance contracts and is not accounting for them under IFRS 4.
	4	While the MOD may apply the simplified approach (where IFRS 9 allows) as this is likely to be easier to implement and maintain in future years, it is likely to lead to an increased impairment charge at initial recognition. Hence, our view is that HM Treasury should not mandate

		this approach. While it is appreciated that mandating this would lead to improved comparability across the public sector, the option to apply the simplified approach, as allowed by IFRS 9, should be available for entities to apply to best suit their particular circumstances.
	5	The MOD does not apply hedge accounting under IAS 39. Hedge accounting should remain optional as permitted under IFRS 9.If an entity does apply hedge accounting, then HM Treasury should not mandate the use of IFRS 9 but allow the flexibility to continue to use IAS 39 hedge accounting as it may be better suited to the particular circumstances of an entity.
	6	The MOD enters into foreign currency forward purchase contracts and fuel fixed price Swap contracts. These are accounted for as derivatives, measured at fair value with movements in the fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The MOD does not apply hedge accounting to these contracts.
	7	Yes – this appears to be the most appropriate approach.
	8	Yes.
	9	Yes – while the disclosure requirements are onerous, the MOD agrees that materiality needs to be considered in determining whether entities are required to provide particular disclosures. While, in the ED, HM Treasury have stated that materiality considerations need to be made, is there an intention to include such wording in the FReM?
	10	Yes – they are just as appropriate for IFRS 9 as they were for IAS 39 as they take account of the particular circumstances of the public sector. One comment – the proposed FReM wording for Public Dividend Capital (PDC) is 'PDC should be reported at historic cost, less any impairment'. In light of the impairment model under IFRS 9, it would be helpful if the FReM clarified what this impairment should be. As PDC is not defined as an equity instrument under IAS 32, then the MOD's view is that the impairment should only be for any known events rather than an IFRS 9 twelve month expected credit losses from initial recognition.
	11	It is appreciated that the public sector should apply the same core principles as the commercial sector, to the extent that it is meaningful and appropriate in the public sector context. However, as the risks the Standard is addressing are more likely to be prominent in the private sector, the approach should be the lightest touch that is practical to both transition and subsequent reporting.
Department for Transport (DfT)	*Other*	The Department is generally supportive of the two IFRSs being implemented within central government with the minimum amount of adaptation or delay from the approach applied in the private sector. We consider that this enhances the credibility of central government accounting. We also have members of the group which prepare accounts in accordance with the Companies Act (EU adopted IFRS) and any variation from the private sector approach increases the complexity for them of preparing their Companies Act accounts and their resource accounts consolidation packs.
	1	We are in favour of maintaining consistency with Companies Act accounting as far as possible and so we are supportive of the introduction of IFRS 9.
	2	We are in favour of maintaining consistency with Companies Act accounting as far as possible and so we are supportive of the proposed amendments.
	3	We have not elected to treat financial guarantee contracts as insurance contracts and do not intend to change this approach. We currently have one financial guarantee contract, which relates to market date raised by a group member (Network Rail). As it is eliminated on consolidation, we consider that a change in the accounting approach would cause disproportionate effort.
	4	We would expect that entities will want to use this approach wherever appropriate, so we are not sure if there will be any benefit from mandating it. The approach effectively treats all receivables as stage 2 financial assets, and this may prevent entities from thinking through which receivables are stage 1, stage 2 or stage 3, and reflecting on the lessons learned.

	5	One of our group members, Network Rail, expressed an interest in continuing to use IAS 39 hedge accounting treatments. Putting this preference to one side, we are not sure that any inconsistencies eliminated by mandating the use of IFRS 9 would have a material impact, given that hedging and hedge accounting is so rare in government.
	6	We do not undertake macro-hedging activities
	7	We agree with the proposed transition approach (retrospective application without prior period restatement) because it removes the issue of trying to eliminate hindsight bias when calculating prior period credit loss allowances.
	8	As a matter of policy, we think effective dates should be aligned with those applying in the private sector. The proposed effective date of 1 April 2018 (compared with the private sector effective date of periods starting on/after 1 January 2018) achieves this.
	9	We consider that the approach should be consistent with that applied in the private sector and therefore we are in favour of not adapting. We welcome the guidance that disclosures should be determined by materiality.
	10	We note that most of the interpretations relate to instruments such as public dividend capital and "golden shares", which have no direct private sector equivalents and we therefore consider that these interpretations are reasonable.
	11	We note the following implications for budgets and Estimates. Firstly, as a result of the adoption of the expected loss approach to recognising credit loss allowances, entities will recognise expenditure at an earlier point in an arrangement. This may cause short-term variances in outturn due solely to the change in accounting policies. Secondly, implementation retrospectively without restatement would mean that the impact of restatement is treated as a current year cost (rather than a prior-year non-Budget movement in Estimates). We also note that there may be a change in the amount of fines, taxes, penalties etc. which is deemed uncollectible due solely to the change in accounting policies, rather than a change in the efficacy of performance, and there may be issues in communicating the reasons for this.

Northern Ireland departments (NI departments)	*1*	NI departments responded that the bulk of their financial instruments are cash, trade receivables and trade payables. Some bodies reported that the biggest impact will relate to changes to the impairment model which will need to include forward looking data where previously only historical default rates were considered. However, this change is welcomed as it appears to be more prudent. There will also be budgetary consequences as the requirement for an impairment allowance for expected credit losses to be recognised, even where no evidence of deterioration is present, will require additional AME cover, even where it is unlikely to be needed. It will also produce anomalies as these allowances will be reversed when the asset is settled which may be in a later period. Further guidance on how to approach this in practice would be welcomed, particularly in relation to individual material assets (e.g. loans or debtors) where there are no concerns over the counterparty's ability or willingness to settle the debt in full. The approach would appear to lead to an overall understatement of asset value.
	2	NI departments agreed with the proposed amendments in the FReM but felt that some additional guidance may be necessary as IFRS 9 is written mainly for the private sector.
	3	NI departments do not have financial guarantee contracts.
	4	Most NI departments agreed that the simplified approach would be more straightforward to apply and would give better comparability and uniformity, although one department felt it might be useful to retain the flexibility for departments to decide which approach best

		fits their business model. One department also raised the importance of budget implications being considered due to the potential for a significant 'day one' loss.
	5	NI departments do not operate hedge accounting. A NDPB has a subsidiary which holds an interest rate swap. Based on 4.22 of the ED, which states that the basics of hedge accounting under IFRS 9 are the same as under IAS 39, they do not expect this to cause them any issues.
	6	NI departments do not undertake any macro hedging activities.
	7	NI departments agreed with the blanket "retrospective application but no restatement" approach. This was considered the most straight-forward approach and would ensure consistency across the public sector. There would be little, if any, added value in restating prior years.
	8	The majority of NI departments felt that the implementation timetable is reasonable and achievable providing budget implications are considered. It also gives some time to consider individual impacts in more detail. One NDPB noted that the standard is only applicable for the private sector from 1 January 2018 and proposed that it be applied to the public sector from 1 April 2019, allowing us to learn from the challenges faced by the private sector and providing example disclosures. Paragraph 4.43 of the ED acknowledges that the disclosures for the new impairment model are substantial and Treasury has offered to provide additional application guidance (para 4.47) in this area. Such guidance might be much better informed by referring to real examples from the private sector.
	9	Yes, this approach appears to be proportionate and will avoid causing confusion for the reader and for public bodies, particularly given that HM Treasury propose to issue additional application guidance as stated in the exposure draft. NI departments also felt that it was important that the concept of materiality remains to the fore when preparing disclosures.
	10	Yes, the existing IAS 39 interpretations should be retained.
	11	One NDPB commented that the challenge in respect of forecasting AME spending will hinge around the application of probability analysis in order to determine impairment allowances. Guidance on how this is to be done in practice would be helpful.

Department for Communities and Local Government (DCLG) - including the Homes and Communities	*1*	It is noted that investments made under the Help to Buy: Equity Loan scheme will move from being held at fair value through other comprehensive income under IAS 39, to being held at fair value through profit and loss under IFRS 9. This will increase volatility in net expenditure arising from market price changes. Such assets are projected to be valued at c£6bn by March 2017. The new impairment methodology for financial assets measured at amortised cost will result in significant transitional work in process changes and on-going work in accounting for expected losses, although the impact on carrying values is not expected to be material. The changes to hedge accounting are not expected to have an impact.
	2	Yes – the proposed amendments maintain the current adaptations under IAS 39, and are consistent with HM Treasury's established principle of only making adaptations where these are strictly necessary for the public sector context.
	3	No – FGCs will be accounted for in accordance to the financial instruments standards.

Agency (HCA)	4	No – entities should be allowed to decide on their preferred approach, based on what is most appropriate for their circumstances. There are also real examples where the simplified approach would result in different impairment bases being used for similar debts due from the same counterparty, based purely on whether the debt was classified as a loan or a long-term trade receivable.
	5	No comment – no hedging activities undertaken.
	6	No comment – no hedging activities undertaken.
	7	Yes – to simplify the transition and therefore minimise costs, and to ensure consistency across government entities.
	8	Yes – to ensure consistency and comparability with the private sector.
	9	Yes – to ensure consistency and comparability with the private sector.
	10	Yes – there is no need for further adaptations, which would increase divergence between the public and private sectors, reducing comparability.
	11	No.

Department for Education (DfE)	1	New impairment methodology: The new impairment methodology is complex. In particular – there are instances where money is given out to individuals/businesses and the credit quality of an individual/business is not assessed or monitored. The clearest example in DfE is the Student Loans. These loans were provided to an individual based on policy eligibility criteria (such as in attendance at a UK university) rather than credit quality of the individual. This would mean that applying the impairment standard outright – would not be possible, i.e. our systems are not set up, nor is there a policy need to assess and monitor credit quality of an individual borrower. Furthermore, policy may be set to be deliberately blind to credit worthiness of the loan recipient as in the case of student loans. Conversely, deterioration or improvement in an individual's credit quality does not directly correlate with an improvement in the student loan repayment amount. This is because the collection is taken directly from a borrower's income; the borrower's DfE credit quality would be not based solely on an individual's income and capital position. For this reason, we would propose that where for policy reasons financial instruments are issued regardless of credit quality that an alternative impairment model is agreed and incorporated into the FReM through an adaptation or interpretation. For example, for student loans, currently, the impairment principles of IFRS 9 are applied, because an impairment charge is recognised when the loan is issued and adjusted across the life of the loan, based on cash flow model, which takes into account future expected earnings paths of graduates, future economic data along etc. A strict reading of current standards would prevent such an approach since losses can only be recognised once suffered.

		Intra-government balances – the standard is clear that an (stage1) impairment would be required to be recognised on all financial assets – this would include intra-group and intra-government balances. If recognised, this would add a complexity to the WGA consolidation and internal DfE group consolidation because the issuer of the financial asset would recognise a stage 1 impairment, reducing the carrying value of the financial asset. But the borrower would not recognise a reduction in its liability. Therefore, these stage 1 impairments would need to be reversed at a group consolidated level. There is also a difficulty in determining the credit quality of another government department or body as each department/body does not have separate credit ratings. Therefore, whilst this is an inconvenience in the standard and is applicable to corporate entities, FRAB has the opportunity to scope intra-departmental and intra-government balances outside of IFRS 9, and reduce the burden and complexity on financial report and budgets, which DfE would support.
	2	Yes – but as described above. Further amendments should be considered in relation to: - Calculation of impairments – where financial assets are issued for policy reasons which do not require a borrower's credit worthiness to be assessed. - Intra-group/Intra-government balances – these should be defined and outside the scope of IFRS 9. To avoid the onerous impairment calculation and recognising intra-governmental expected credit losses. Disclosure requirements should be simplified due to the absence of investors and shareholders found in corporate environments.
	3	The DfE does not issue guarantee contracts so we are unable to respond on this issue.
	4	Yes – from a WGA/consistency approach DfE would support applying the simplified approach for relevant assets. This will make reduce the burden to maintain, assess and re-assess the credit worthiness of borrowers between the different steps of the impairment model. The absence of credit worthiness in the lending decision would also support this approach. DfE is proposing to mandate the use of the simplified approach for impairments across its agencies, subsidiaries and NDPBs. This is because our NDPB's have limited financial instruments, mainly cash, receivables and payables. Therefore this will reduce the reporting burden on these entities with the introduction of IFRS 9.
	5	DfE thinks that HM Treasury should mandate the use of IFRS 9 for hedge accounting and remove the flexibility to continue to use IAS 39 hedge accounting.
	6	No
	7	Yes. Since both approaches require quantification of the impact of adopting IFRIS 9 DfE struggles to see any benefit from introducing inconsistency across government.
	8	Yes – except that we would suggest that HMT/IFRS 9 working group provides guidance/practical examples agreed with the NAO as to how to credit deterioration is determined and assessed. This is because IFRS 9 provides suggestions on how to do this but leaves this to individual reporter's judgement. To avoid the NAO from challenging different approaches adopted across Whitehall, we would suggest common practical methodology is developed/agreed with the NAO during the implementation of IFRS 9. A common approach is as desirable across departments as it is for NAO's audit approach.
	9	No – Need to consider this further. My initial view is (although I need to read the disclosure requirements – is that they will be onerous as they will be written from a private sector perspective, i.e. to explain the risks that an entity has taken on to an investor. As Departments do not have investors, some of these disclosure requirements will be monetarily material (quantitative material) but qualitatively immaterial.

		Adapting disclosures to better reflect the nature of government reporting will result in stronger government reporting and limit inconsistent NAO challenges. For example, under IFRS 13, the disclosure requirements for items held at fair value, where the fair value is not determined by reference to an active market, for example the FTSE, results in significant disclosure requirements. Which whilst for an investor would be relevant are not necessarily relevant in the public sector.
	10	Yes since these are well known interpretations and provide a stable implementation approach.
	11	Business model – the business is a matter of fact, but the standard goes on to say that judgement is required when determining a portfolio of financial assets to which the business model applies. As the business model is used to determine the classification of financial debt assets and therefore the subsequent accounting, i.e. amortised cost versus fair value through profit or loss. From a WGA perspective there is a risk that different departments apply different business models to the same or similar portfolios of financial assets, for example, DfE classifying its student loans at fair value through other comprehensive income while another department classifying its student loans at amortised cost, based on different views of the entities Business Model. From a WGA perspective, these would be in the same portfolio – therefore likely have a single Business Model. Therefore, for the significant financial assets held by the WGA, we would suggest from a WGA perspective reviewing the expected classification criteria of similar financial debt assets issued across the public sector to avoid NAO challenge/qualification.

UK Export Finance (UKEF)	*1*	As the Expected Credit Loss (ECL) model in IFRS 9 results in the recognition of a provision for expected losses at initial recognition departments will need to give careful consideration to the planning, budgeting and forecasting and supply estimates as well as communication of what this change means to users.
	2	We support the proposed amendments in particular to improve the accounting for recognition of credit losses on financial assets by addressing the weaknesses in the existing incurred loss model that were observed in the private sector during the financial (banking) crisis. We agree that an impairment model that is based on expected credit losses that incorporates information about past events, current conditions, and future economic factors avoids the inherent problem in an incurred loss model. This expected credit losses approach for financial assets is closely aligned to what UKEF currently does for risk management purposes on its Insurance and Guarantees book.
	3	UK Export Finance (2015-16 Annual Report and Accounts) has some £17.2bn of 'exposure' to FG's and Insurance contracts. £16.9bn is accounted for under IFRS 4: Insurance Contracts and £0.3bn as FG's applying IAS 39. Of the £16.9bn a significant portion of the exposure relates to FGC's which UKEF took the option of applying Insurance accounting to because it had previously asserted explicitly that it regards such contracts as insurance contracts and has therefore used accounting applicable to insurance contracts (IFRS 4: Insurance Contacts – 'grandfathering'). Applying the new classification and measurement requirements in IFRS 9 before the new insurance contracts standard is finalised is not an ideal outcome as UKEF is not in a position to consider the full impact on its Insurance and Guarantee book and it would potentially mean significant changes being spread out over a numbers of years.

	4	Reducing the number and range of options may lead to an overall more consistent picture across the public sector however given the diverse range of entities within the public sector leaving these options open to the reporting entity to determine (based on their particular circumstances) would also seem to have merit.
	5	UKEF does not apply hedge accounting currently.
	6	No
	7	I agree. Either way opening balances need to be determined. [Question: what are the supply estimates consequences of this approach? Guidance should be issued on this so there is clarity both from a spending publications (estimates) perspective as well as an Oscar recording perspective.]
	8	Consideration should be given to whether delayed adoption should be permitted. To adopt in 2019 or in the new Spending Review period would allow lessons from the private sector transition to be learned and applied. [There is a precedent for a delay (e.g. IFRS 13) and as many of the issues dealt with by IFRS 9 come from lessons learned in relation to the private sector during the Global banking crisis (and not the public sector) a delay could be considered less of an issue].
	9	I agree. Application of materiality is however key. It would be a shame to undermine all the good work done from the red pen exercise in the HMT 'Simplifying and streamlining' project. Some guidance on materiality and ensuing; departments, audit committees and auditors are on the same wavelength is important.
	10	UKEF does not apply any of the existing interpretations. UKEF's view is that in general interpretations of standards is appropriate when this results in the standard being more relevant in a public sector context. To apply standards 'out of the box' with no thought of the relevance to the public sector does not support comparability or user understanding of the resultant financial statements.
	11	Implementation of the changes to impairment with regard to expected credit losses requires a consistent approach to be taken by auditors across the public sector. Policy makers will need to ensure they understand the full consequences of a change in policy given the impact on business operating models (if it impacts the underlying financial assets) and therefore the consequential accounting treatment. There may be significant impacts on budgets for some public sector bodies e.g. impairments. Applying IFRS 9 before the new insurance contracts standard is going to be an issue for a limited number of entities within the public sector. Where possible alignment should be an option.

Department for Culture Media and Sport (DCMS)	*1*	
	2	We agree to the introduction of IFRS 9 into the FReM but are also eager to retain the choices available within the standard in order to minimise alignment issues between ourselves and our IFRS ALBs.
	3	Not expected to be applicable to the DCMS Group.
	4	We believe the flexibility should be retained so the option most appropriate to the organisation's circumstances can be taken. If the flexibility is removed DCMS could potentially encounter alignment issues if one of our IFRS bodies chose the alternative option. These can be complex to unpick adding further strain to resources and time at year end.

	5	Again we believe the flexibility should be retained so the option most appropriate to the organisations circumstances can be taken. If the flexibility is removed DCMS could potentially encounter alignment issues if one of our IFRS bodies chose the alternative option. These can be complex to unpick adding further strain to resources and time at year end.
	6	No
	7	DCMS believes the two options should remain open for organisations to select the approach which best suits their circumstances and the expectations of stakeholders.
	8	This is a significant change in the standard and will require a long lead in time to ensure our Core department and our ALBs are in a position to deliver quality information on time. While we agree with the effective date (it will ensure alignment with our IFRS ALBs) clarity on the final FReM form of IFRS 9 should be available as soon as possible so we can adequately plan for this change.
	9	We agree with adopting the disclosure requirements of IFRS 9 in full i.e. without adaption since this makes maintaining alignment with our ALBs easier. However HMT should also stress materiality considerations with the NAO. Application guidance from HM Treasury would be welcomed.
	10	We agree the existing interpretations should be retained however we believe another should be added. Currently most departments value their non-traded non-finance public corporations using net assets as this is the most appropriate valuation technique. To arrive at this however requires a detailed paper being provided to the audit and lengthy discussions around it. Auditors can reject this approach (DCMS are currently experiencing such push back for the valuation of one of our public corporations) and push for much more complex and subjective valuations (e.g. net present value using cashflow forecasts). This is not something the ALBs or it subsidiary's currently produce and would have to dedicate significant time and expensive to develop, all for no internal benefit. Given that this situation is unique to central government (full IFRS bodies in the parent's accounts include the subs invariably on a historic cost basis and in the group accounts consolidate wholly owned subsidiaries on a line by line basis) we believe valuing these bodies in any other way apart from net assets will be an extremely costly and time consuming exercise, an unintended consequence of the FReM. Also even if a net assets valuation is accepted these discussions can be reopened at any time requiring the department justify net assets as an appropriate proxy for fair value. Please note the NAO have indicated that they may agree to a net assets valuation basis for BBC subs that are classified as public corporation and if they do, that we would have to review this each year. As such we are of the firm opinion that the FReM should mandate that all non-traded non-finance public corporations are valued at net assets to avoid unnecessary costs and work.
	11	No

HM Revenue and Customs (HMRC)	*1*	Of limited impact to HMRC given the nature of Financial Instruments we hold. Noted hedge accounting not applicable to us. Noted there to be no interpretation in relation to being prescriptive about the impairment methodology to be adopted (see Q4).
	2	Yes - only impact for HMRC appears to be the 'forward look' in terms of determining the extent of impairment
	3	No - hedge accounting not of relevance to HMRC
	4	Yes - mandating the 'simplified approach' would enable comparability. Also suggest that such a consistent 'Group' approach would be required anyway for presentation of values for WGA purposes.

	5	As this doesn't apply to HMRC, we will leave for others to express a view as we are not best placed to understand the impacts of a response either way.
	6	No
	7	Yes - agreed this is a pragmatic approach.
	8	Yes - appears achievable
	9	Yes - particularly noted that additional disclosure in SoCNE (Para 4.40) is either already detailed within the Notes to our RAs, else readily identifiable from our General Ledger accounts structure.
	10	Yes - appears a logical approach.

Department of Health (also responding on behalf of NHS bodies)	*1*	DH has reviewed its group Statement of Financial Position and consulted its ALBs and the NHS. There is little indication that the changes resulting from IFRS 9 will have a significant impact, and we have identified no specific issues arising from the new standard.
	2	DH agrees with the proposed FReM amendments. We do not believe there are strong grounds for new adaptations or interpretations and therefore agree that public sector entities should follow IFRS 9 in full.
	3	The DH group does not have any insurance contracts or financial guarantee contracts, and will therefore not be affected by the new standard.
	4	DH notes the benefits, in terms of simplicity and reduced reassessment of impairment, of the simplified approach. However, to justify mandating this approach and removing from entities the flexibility to apply the policies they consider appropriate for their financial instruments, we believe there needs to be a clear argument for requiring consistency across government, for instance to facilitate consolidation of Whole of Government Accounts.
	5	The DH group does not currently apply hedge accounting, and therefore does not have a significant interest in this issue. However, our understanding is that the changes to hedge accounting under IFRS 9 are intended to better align the accounting with risk management activities in the business. The requirements of hedge accounting under IAS 39 are very prescriptive, and it is not clear what the benefit is of adhering to these, other than to avoid implementation of a change. If such a change is inevitable, it would arguably be better to implement this as part of the overall implementation of IFRS 9 and to do so consistently across government.
	6	No
	7	DH agrees with the proposed approach to transition. We believe a full restatement would be excessive and would not result in meaningful prior year comparators. Given the extent of DH's consolidation, incorporating over 400 NHS bodies, restating 2017-18 could pose a significant risk to successful delivery of pre-recess accounts. Retrospective application without restatement offers a proportionate approach to implementing the standard for the first time.
	8	DH agrees with the proposed effective date. Based on our work so far with the NHS and our ALBs, we expect to be ready to implement IFRS 9 in 2018-19 and would not see a case for delaying this. We would not wish to adopt the standard early.

	9	DH agrees with the decision not to adapt the disclosure requirements, noting the emphasis placed on application of materiality. The nature and magnitude of financial instruments is likely to vary widely across government, and it makes sense to allow departments flexibility to identify a level of disclosure appropriate to their circumstances.
	10	DH agrees with retaining the existing IAS 39 interpretations. The department issues significant amounts of PDC to NHS providers and relies in particular on the interpretation specifying that this should be reported at historic cost, less impairment. We would not see any benefit in moving to a more complex treatment. We also do not see a case for changing any of the other interpretations.
	11	As has been noted, one of the issues facing bodies across government, and within large consolidation groups such as the NHS, is the approach to recognising loss allowances for receivables with entities under common control and subsequently eliminating intra-group balances. We would welcome any guidance HMT can provide to ensure a consistent approach across government.

Department for Environmental and Rural Affairs (DEfRA)	*1*	The comments we have received are broadly supportive of the proposed changes. EA are of the opinion that implementation of the new impairment methodology will be challenging. They will have to develop some mechanisms to establish a new bad debt provision process and a way of collecting supporting data to back up their assessment of various income streams credit risk. Only the Rural Payments Agency (RPA) undertakes significant hedging activities within the Defra family. Indeed, hedging is an essential risk management tool for RPA, where there is no suggestion of a central government approach to absorb such risks. Through hedge accounting, their accounts do accurately reflect their risk management strategy and produce disclosures which do represent the economic reality. RPA have stated that they are content with the application of IFRS 9 in the public sector – as their hedging activities meet the eligibility requirements of IAS 39 and will continue to do so under IFRS 9. They also believe that the new standard may also bring some simplification regarding hedge effectiveness testing.
	2	We have received supportive comments regarding the amendments. In the main, it is believed that application of the standard will drive improvements in accounting and reduce unnecessary complexity.
	3	Related discussions with our newly formed reinsurance delivery Body, Flood Re, are at an early stage. We therefore anticipate that we will be in a position to provide more feedback regarding this issue in the near future.
	4	We support the proposal to mandate the simplified approach to impairment for relevant assets. We are in favour of any initiative which reduces unnecessary complexity and believe it will facilitate a standard approach for the public sector, meaning data will be more comparable across the public sector.
	5	The new standard may bring some simplification (such as for regarding effectiveness testing, as detailed in our answer to question 1) and on that basis mandating is welcomed.
	6	No such activities are undertaken. RPA's hedging covers the foreign exchange risk relating to a single asset: a receivable from the European Commission.
	7	Yes - we are supportive of this. The option to apply mainly prospective application for hedging instruments is welcomed as it reduces unnecessary workload and complexity, as will the limited restatement arrangements more widely represented in IFRS 9.
	8	We have received a mixed response to this question. Whilst we have had comments from RPA in support of the proposed effective date, it has also been suggested by EA that the timetable from the issuing of the FReM (January 2018) to implementation (April 2018) does not allow for adequate considerations of the system and budget impacts of the proposed changes. An implementation date in the FReM of 1 April 2019 has been suggested as a more workable alternative.

	9	RPA are supportive of this on the basis that the accounting and disclosures accurately reflect their risk management policy, which is the main driver for the changes outlined in the new standard. However, RPA have also stated that they would welcome the opportunity to abridge their disclosures to more clearly explain the potential impact of foreign currency denominated items and how they mitigate the exposure. Such a revision is more likely to occur in response to the agenda to streamline the disclosures within the Annual Report and Accounts.
	10	Yes – in the interests of simplification and consistency, we are in favour of this proposal.
	11	EA have expressed hope that the FReM, and therefore the NAO and other auditor interpretations, will be pragmatic. Where accounting disclosures are being included for only IFRS 9 reasons and not for benefit of the reader of the accounts, they suggest that the disclosures are reviewed and a pragmatic solution agreed. In times of decreasing resources, creating work with little to no public benefit seems unnecessary. RPA have commented that all current hedging activity carried out by RPA relates to the foreign exchange exposure on the European Commission reimbursement of incurred expenditure. Therefore, the decision to leave the EU obviously has a significant impact on the RPA business, the future need for this risk management and the need to accurately reflect their risk management policy, as facilitated by the introduction of IFRS 9.

Environment Agency (EA)	*Other*	There will be some work to do on the change in impairment methodology and the environment agency will have to develop some mechanisms to establish a new bad debt provision process and a way of collecting supporting data to back up our assessment of various income streams credit risk. At this time we don't believe that we have other financial instruments will be affected. The Reservoir Operating Agreement methodology we assess will be unchanged and will continue to be measured at amortised cost.
	1	The new impairment methodology will be a challenge to implement but will drive improvements in accounting. For the environment agency the other areas don't have a large impact but do feel a reasonable interpretation for the public sector.
	2	Yes – no comments
	3	No – n/a
	4	Yes – this would allow a standard approach for the public sector. It also will allow for income streams where charges have to be set to be able to apply an expected % to charge.
	5	It would simplify things. But not having hedging instruments – it's hard to comment more than that.
	6	No – n/a
	7	Yes – as with IFRS 15, this feels a sensible approach

	8	No – although the EA impact would be moderate, I would think it sensible to have a FReM implementation date of 1 April 2019. The timetable from the issuing of FReM to implementation does not allow for adequate considerations of the system and budget impacts of the proposed changes.
	9	
	10	Yes – no comments
	11	Yes – I would hope that the FReM and therefore NAO and other auditor interpretations will be pragmatic and where accounting disclosures are being included for only IFRS 9 reasons and not for benefit of the reader of the accounts, the disclosures are reviewed and a pragmatic solution agreed. In times of decreasing resources, creating work with little to no public benefit seems unnecessary.

Ministry of Justice (MoJ)	*Other*	The most significant financial instruments in the MoJ group are LAA statutory charges and HMCTS trust statement receivables. Both are currently significantly impaired using models that take into account individual and collective (portfolio) assessments. As such, the impact of implementing IFRS 9 may not be significant.
	1	No specific comments.
	2	Do not see any issues with the amendments but are not greatly affected.
	3	No impact, not relevant for MoJ.
	4	The financial reporting impact on MoJ trade receivables is likely to be low. However, mandating may be efficient as would remove requirement for each entity to consider approaches and justify to auditors.
	5	Hedge accounting is not applicable to MoJ under IAS 39 or IFRS 9.
	6	No.
	7	Yes, prefer not to restate comparatives if avoidable. Opening balance restatement reflects substance of change. However, not expecting MoJ bodies to face significant adjustments.
	8	Yes, though not expecting to adjust significantly.
	9	Yes, if standard is material to entities then disclosure requirements are appropriate and useful for readers.
	10	Not expecting significant relevance to MoJ. Retention will likely minimise transition disruption.
	11	Would prefer “intra-Crown” balances to be out of scope for expected credit loss impairments. Will present difficulties on WGA consolidation to unpick bad debt expense movements relating to intra-Crown debt. Would still impair for incurred losses.

Department for Business, Energy and Industrial Strategy (BEIS)	*1*	Debt and hybrid debt financial investments: The revised classification and measurement approach will have a material impact on BEIS financial assets, in particular financial assets which are hybrid debt instruments. Such financial instruments were previously accounted for as available for sale financial assets under IAS 39, with revaluation gains being recognised in other comprehensive income with no associated budgetary impact. Under IFRS 9, they would be accounted for at FVTPL, with revaluation gains recognised in the income statement with an associated budgetary impact. Clear examples of this in BEIS are Repayable Launch Investments (RLI's). These are financial loans issued to the UK civil aerospace sector to support the design and development of aerospace projects. These loans are repaid based on levies charged against the subsequent sales of the developed planes to airlines and finance leasing companies. The repayments and returns to BEIS are linked to the number of sales made and levy charged per plane. Under IAS 39, these financial asset investments were accounted for as available-for-sale financial assets with revaluation gains being recognised in other comprehensive income with finance income and impairments (if applicable) recognised in the income statement. RLI's were classified as available-for-sale financial assets as this was the residual classification type under IAS 39 and RLI's did not meet the characteristics of the other three IAS 39 classification types. Under IFRS 9, this will change, as the residual classification type is FVTPL. Whilst the business model for BEIS is to collect the RLI's contractual cash flows. The repayment returns from RLI's would not meet the IFRS 9 definition of returns of solely principal and interest. IFRS 9 defines interest as a return to compensate the originator of the financial asset for the time value of money and the credit risk of the borrower. In the case of RLI's, the return is based on subsequent levies charged against future plane sales, which is not directly linked to the credit risk of the borrower. The classification under IFRS 9, as FVTPL will have a budgetary impact, as previously revaluations of RLI's went through OCI (non-budget) and would under IFRS 9 be recognised in the income statement (budgeted). Also an impairment would not be recognised as the movement in fair value would take account of any decrease in the value of expected future cash flows directly in the income statement as part of the annual fair value calculation, rather than recognising a separate impairment. This would potentially have a budgeting impact between different control totals, depending upon on whether the CBG was amended as a result of implementing IFRS 9. Similarly, BEIS has other financial hybrid debt investments, where the repayments and returns are linked to profit sharing agreements. Under IAS 39, these were classified as available-for-sale financial assets, whereas under IFRS 9 these would be classified as FVTPL, with the same associated budgetary impact as described above. There is an option in IFRS 9, to recognise fair value movements on debt instruments through OCI. But this will not be available for these types of hybrid investments, as these financial assets do not meet either the repayments of solely principal and interest condition nor the business model condition of being held under a business model to collect contractual cash flows and held for short term sale. Recommendation: BEIS supports HMT to review the CBG to ensure that the current budgetary result for hybrid debt instruments previously classified as available for sale financial assets is retained. Equity financial investments: There will also be a budgetary impact for equity financial investments which were previously classified under IAS 39 as available-for-sale financial assets, and which under IFRS 9, would be classified as FVTPL. Unless the IFRS 9 option to recognise gains through OCI, as

		FVTOCI is not applied. Examples of these include: 1) Impact on subsidiaries outside of the Departmental boundary. The 2016-17 FReM requires these to be recognised as a financial investment under IAS 39. With the introduction of IFRS 9, the FReM would be amended so these equity investments are recognised as a financial asset investment under IFRS 9. Across the BEIS group, these investments were classified as available-for-sale financial assets and carried at fair value based on net assets where a fair value could be determined and cost where fair value could not be reliably determined. Where fair value was applied, fair value movements were recognised in OCI. Under IFRS 9, equity investment would all be classified as FVTPL (unless BEIS makes an irrevocable elected to recognise revaluation gains in OCI under IFRS 9 para 5.7.5). If this election was made and mandated for financial equity investments then the accounting and budgetary impact would be the same under IFRS 9 and IAS 39 for financial equity assets. The fair value gain movement is currently non-budget through OCI, versus in budgets if fair value through profit or loss is applied. 2) Equity investments in investment funds: Similarly equity investments in investment funds such as the Global Climate Partnership Fund (GCPF) are currently recognised under IAS 39, as available-for sale equity financial asset. Under IFRS 9, these would be classified as FVTPL, and BEIS would use the option in IFRS 9 para 5.7.5 to ensure the accounting and budgetary impact is the same under IFRS 9 as under IAS 39. Recommendation: BEIS would suggest mandating across HMG that all subsequent changes in fair value on equity investments held outside the departmental boundary and equity investments previously recognised as available for sale financial assets are recognised in OCI, rather than the income statement. This is to maintain the current IAS 39 accounting and budgeting treatment and ensure consistency across HMG. New impairment methodology: The new impairment methodology is complex. BEIS have identified two particularly pertinent issues we wish to highlight to HMT as part of this consultation: 1) Financial instruments issued for policy reasons: There is a challenge in assessing and monitoring associated changes in credit quality of borrowers and debtors, given that for policy reasons HMG are engaged in providing finance to individuals solely for policy reasons and credit risk is not directly monitored, nor is it a factor in being eligible for the financial loan. 2) Intra-governmental balances: The IFRS 9 impairment model would require BEIS and other government departments to recognise expected credit losses on intra governmental balances. This will add complexity to the accounting with an associated added cost, for little benefit to the users of the accounts. These points are expanded on below:

		Financial instruments issued for policy reasons (which do not take in to account credit quality of an individual). HMG issues financial instrument for policy reasons which do not require the credit quality of an individual borrower to be assessed at the outset or monitored subsequently. Whilst impairment provisions are recognised from the outset, these are not based on the change in credit quality of the borrower. The clearest example in former BIS was the income contingent repayable (ICR) student loans. These loans were provided to an individual based on policy eligibility criteria (i.e. in attendance at a UK university, studying for an approved course and meeting the nationality or residency status criteria) rather than the credit quality of the individual. Repayment of these loans is based on a student's future earnings rather than directly on their ability to repay. Therefore to apply the impairment requirements of IFRS 9 outright, would not be possible for the ICR student loans, i.e. HMG's systems are not set up, nor is the policy set up to assess and monitor the credit quality of an individual borrower. Instead, the 'resource accounting and budgeting charge' ('RAB charge'), the government term for the impairment recognised when the student loans are issued is calculated with reference to expected future repayments from students discounted at HMT's cost of borrowing. The expected future repayments are estimated on a portfolio basis of all student loans issued with reference to expected future earnings growth, OBR forecasts and expected movements in RPI. In addition deterioration or improvement in an individual's credit quality does not directly correlate with an improvement in the student loan repayment amount. This is because the collection is deducted from a borrower's income, and credit quality would be based on an individual's income and capital position. <u>Recommendation:</u> BEIS would propose that where for policy reasons financial instruments are issued regardless of credit quality that the basis of an alternative impairment model is agreed and incorporated into the FReM through an adaptation or interpretation. <u>Intra-government balances</u> IFRS 9 is clear that a stage1 impairment provision (12 month expected credit losses) would be required to be recognised on all financial assets when they are issued and subsequently require the lender to monitor the credit quality of the borrower – this would include intragroup and intra-government balances. If the stage 1 impairment provision is recognised, this would add complexity to accounting. Additional resource would be used to determine the 'theoretical' intra-group and intra-government initial 12 month expected credit loss. There would also be difficulty in determining the credit quality of another government department as each department does not have a separate credit rating. The WGA consolidation and internal BEIS group consolidation would be complicated because the issuer of the financial asset would recognise the stage 1 impairment, reducing the carrying value of the financial asset. But the borrower would not recognise a reduction in its liability. In addition, these stage 1 impairments would need to be reversed at a group consolidated level and at a WGA level. In addition to the above: BEIS has financial assets arising from the privatisation of the Coal Industry, and the government guarantees which were given in respect of the pension schemes. The value is approx. £370m representing a proportion of the surplus in the schemes which the Trustees have agreed

		to pay over to Government, given the guarantee. BEIS's view is that where the assets we have come with (either directly/ or indirectly) a government guarantee, and so should be scoped out of the requirement to apply stage 1 of the impairment model. E.g. the Coal Pensions receivables - where these arise because of the government guarantee to the scheme and the expected credit loss approximates nil. Whilst the impairment model creates additional accounting requirements for intra-group and intra-departmental balances and is applicable to corporate entities, HMT/FRAB has the opportunity to exclude intra-group and intra-government balances from the scope of IFRS 9 stage 1 of the impairment model. This would reduce the burden and complexity on financial reporting and result in no additional impact on budgets, which BEIS would support. Impairments would still be recognised when there is an expectation of default and lifetime credit losses are recognised similarly to under IAS 39. Recommendation: The FReM to amend IFRS 9's scope to exclude intra-government balances and intra-group balances from applying stage 1 expected 12 month credit losses from the IFRS 9 impairment model. Or alternatively, explicitly state in the FReM that the stage 1 expected 12 month credit losses approximate to nil for intra-group and intra-government balances, this would also extend to where there is a government guarantee in place. Change in recognition of own-credit risk on financial liabilities held at fair value through profit or loss: IFRS 9, requires that the change in fair value of financial liabilities held at fair value through profit or loss, that is attributable to the change in a departments own credit risks is recognised in OCI, rather than previously in the income statement. BIES has derivative liabilities in excess of £20 billion in relation to the Contract for Difference which is expected to increase to £50 billion in the near future. Under IFRS 9, BEIS would have to value the derivative from the perspective of a market participant, and would be required to consider something akin to a reverse impairment. I.e. if BEIS started with a £50 billion liability, if BEIS's credit worthiness deteriorates, then BEIS would recognise that market participants would only value the £50 billion liability from HMG at say £49 billion, and BEIS would book a credit of £1 billion to reserves through OCI. This is the logic of the standard, and given the material sums involved, BEIS would need to complete a significant amount of work to assess BEIS's own credit worthiness. Given that HMG does not have a history of defaulting; BEIS has historically excluded BEIS' credit risks from the fair value calculation. Recommendation: Therefore to avoid undue complications and use of time and resources we would suggest that either; a) HMG's credit risk is explicitly determined as nil in the FReM; b) HMG's credit risk is implicitly included in the HMG discount rate and disclosed in the PES paper to enable the split of change in own (HMG's) credit risk to be recognised in OCI or c) the requirement to apply IFRS 9 para 5.7.7 are removed under the FReM. Changes to hedge accounting: BEIS welcomes the changes to hedge accounting and anticipates that these changes would enable BEIS to continue use hedging to manage foreign exchange risks going forward.
	2	Yes – but as described above and below. Further amendments should be considered in relation to:

		1) Hybrid debt financial investments – under IFRS 9 these would be recognised as fair value through profit or loss rather than available for sale financial asset through OCI. Recommendation: HMT to review the CBG to retain the current budgeting result for hybrid debt instruments. 2) Equity financial investments – under IFRS 9 there is the option to recognise fair value gains through OCI rather than the income statement. Recommendation: HMT to mandate this option is applied for equity financial investments to retain the same accounting and budgeting as available for sale equity investments. 3) Calculation of impairments where financial assets are issued for policy reasons which do not require a borrower's credit worthiness to be assessed. Recommendation: HMT to incorporate into the FReM agreed impairment models where credit worthiness is not required to be monitored for policy reasons. 4) Calculation of impairments on Intra-group/Intra-government balances: This would require stage 1 (12 month expected credit losses) to be recognised on all intra-group and departmental assets. Recommendation: The FReM to adapt IFRS 9, to exclude intra-group and intra-governmental balances from recognising stage 1 impairments under the impairment model or to explicitly state that the initial expected credit losses on intra-governmental and intra-group balances is nil. 5) Changes in recognition of own-credit risk on financial liabilities held at fair value through profit or loss – recognised in OCI. Recommendation: Either a) HMG's credit risk is explicitly determined as nil in the FReM, b) HMG's credit risk is implicitly included in the HMG's discount rate and disclosed in the PES paper to enable the accounting to HMG's credit risk in OCI or c) the requirement to apply IFRS 9 para 5.7.7 are removed under the FReM. 6) The choice in using IFRS 9 or retaining IAS 39's hedge accounting rules. Recommendation: Mandate the use across HMG to use IFRS 9 hedge accounting rules (where an entity applies hedge accounting) 7) The choice to use the IFRS 9 practical expedient for receivables etc. Recommendation: Mandate the use of the practical expedient across HMG. 8) Investments in subsidiaries outside the departmental group Recommendation: The FReM should be explicit on the accounting implications under IFRS 9, i.e. at FVTPL or FVTOCI to avoid a mixed application across government. BEIS would advocate FVTOCI is applied. Plus guidance should be added in the FReM that the net assets of the entity should be used as a proxy for fair value where the entity's shares are not actively traded on a recognised stock exchange in circumstances where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, then cost should be used. This would preserve the IAS 39 accounting of unquoted investments which were accounted for at

		cost, where no reliable measurement of fair value was available – to reduce expense and challenge from NAO in determine the fair value of non-quoted equity investments. 9) Disclosure requirements: Recommendation: Adapting disclosures to better reflect the nature of government reporting will result in stronger government reporting and limit inconsistent NAO challenges.
	3	No – The new insurance contract standard is not expected to impact on the way that BEIS accounts for financial guarantee contracts. This is because BEIS plans to continue to account for financial guarantee contracts as financial instruments, under the new requirements of IFRS 9, which are similar to IAS 39.
	4	Yes – from a WGA/consistency approach BEIS would support applying the simplified approach for relevant assets. This will reduce the burden to maintain, assess and re-assess the credit worthiness of borrowers between the different steps of the impairment model. BEIS is proposing to mandate the use of the simplified approach for impairments across its agencies, subsidiaries and NDPBs. This is because our NDPB's have limited financial instruments, mainly cash, receivables and lease receivables. This will reduce the reporting burden on these entities with the introduction of IFRS 9. As noted above, BEIS would support reducing the scope/excluding intra-group/intragovernment balances from the impairment requirements under IFRS 9 to reduce the burden on reporters to identify the credit losses on these balances which is expected to be nil.
	5	Yes – BIES agrees that HM Treasury should mandate the use of IFRS 9 for hedge accounting rules (where a department, agency or NDPB wishes to apply hedge accounting) and remove the flexibility to continue applying the IAS 39 hedge accounting rules. This is because, from a BEIS consolidation perspective, we would mandate the use of the IFRS 9 hedge accounting rules (where an entity wishes to apply hedge accounting), to remove the opportunity for a divergence in accounting policies between entities in BEIS's Departmental Group accounts. We assume that HM Treasury would also want Departments to apply either the IFRS 9 or IAS 39 hedge accounting rules uniformly to avoid potential consolidate differences at a WGA level.
	6	No
	7	Yes – BEIS agrees with HMT's proposal that a consistent approach is applied across the public sector. BEIS has no preference is applying option 1 or option 2.
	8	Yes – except that we would suggest that HMT/IFRS 9 working group provides guidance/practical examples agreed with the NAO as to how to credit deterioration is determined and assessed across the public sector (if intra-public sector balances are not scoped out of the IFRS 9 impairment requirements). This is because the IFRS 9 standard provides suggestions on how to do this but leaves this to individual reporter's judgement. To avoid the NAO from challenging different approaches adopted across Whitehall, we would suggest common practical methodology is developed/agreed with the NAO during the implementation of IFRS 9.
	9	No – the disclosures in IFRS 7 are written from a private sector perspective, i.e. to explain the risks that an entity has taken on to an investor. As Departments do not have investors, some of these disclosure requirements will be monetarily material (quantitative material) but qualitatively immaterial. For example, under IFRS 13, the disclosure requirements for items held at fair value, where the fair value is not determined by reference to an active market for example the FTSE, results in significant disclosure requirements. Which whilst for an investor would be relevant are not necessarily relevant in the public sector. Under the FReM, BEIS holds investments in entities which our outside the departmental boundary under IAS 39/IFRS 9, which results in these investments being held at fair value. BEIS uses the net assets of the

		entity outside the departmental boundary as a proxy for the fair value of the investment. Under IFRS 13, this would be a level 3 input and require sensitivity analysis. The sensitivity analysis would be a function of spend/performance and would be of little value to the users of the accounts. Recommendation: Where sensitivity analysis is required under IFRS 13 for investments held outside the departmental boundary, these should be excluded from the scope of IFRS 13.
	10	Yes BIES supports the existing IAS 39 interpretations and would add additional clarification, i.e. when using the HMT discount rate for an amortised cost financial asset, BEIS suggests that the FReM is explicit that HMT's discount rate can be taken as a variable rate when the underlying financial instrument is charging a variable interest rate and a fixed rate when the underlying financial instrument is charging a fixed interest rate. As noted in answer to Question 1 and 2, BEIS would suggest the additional interpretations when implementing IFRS 9.
	11	Business model – the business is a matter of fact, but the standard goes on to say that judgement is required when determining a portfolio of financial assets to which the business model applies. As the business model is used to determine the classification of financial debt assets and therefore the subsequent accounting, i.e. amortised cost versus fair value through profit or loss. From a WGA perspective there is a risk that different departments apply different business models to the same or similar portfolios of financial assets, Therefore, for the significant financial assets held by the WGA, we would suggest from a WGA perspective reviewing the expected classification criteria of similar financial debt assets issued across the public sector to avoid NAO challenge/qualification at the WGA level.

HM Treasury (HMT)	*1*	Classification and measurement The Department's view is that the classification and measurement requirements of IFRS 9 are suitable for application in the UK public sector. Impairment methodology While the concepts are easy to follow, introducing the new impairment methodology is likely to result in the need to capture data new data and to implement new processes. This is likely to increase the compliance burden on finance teams. Acknowledging the likely additional compliance burden the Department sees no need to not adopt the new impairment methodology. Often the Department takes on new financial instruments for political reasons. The Department considers that it is possible the impairment methodology may not align the political rational and it is unclear how this conflict will evolve and be resolved. The Department recommends that consideration is given to developing FReM guidance that contains a rebuttable assumption that all inter-government balances do not need to be assessed for impairment. Because the government has a reliable history of paying debts as and when they fall due. Changes to hedge accounting The Department does not currently undertake any hedging activities, however UKAR, a 100% owned subsidiary of the Department, does and this is discussed further in Question 6 below.
	2	Yes, the Department agrees with the proposal to replace references to IAS 39 with IFRS 9.

	3	The Department does not expect the new insurance contracts standard to impact how the Department accounts for its financial guarantee contracts (FGCs). The Treasury has not previously asserted, and does not plan to assert, that its FGCs are regarded as insurance contracts.
	4	The Department agrees that the proposal to mandate the simplified approach to impairment is appropriate for short term financial assets. This is because as stated in paragraph 4.19, the "application of the simplified approach to impairment is likely to suit those entities that have receivables balances". However, the simplified approach may not be suitable for the Department's longer term assets (20+ years) given the uncertainty in measuring the expected credit losses. Applying the simplified approach requires calculating a portion of the lifetime expected credit loss (ECL) that represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
	5	The Department does not see any compelling reason to remove the option to use IAS 39 for hedge accounting.
	6	Yes. Fair value hedges are used to hedge exposures to variability in the fair value of financial assets and liabilities. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Net Comprehensive Expenditure, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Statement of Financial Position in 'fair value adjustments on portfolio hedging'.
	7	Yes, the Department agrees with the transition approach for the proposed amendments. The Department notes that either approach is likely to result in a similar amount of work. The Department considers that it is important that there is consistency in the adoption of IFRS 9 because this will make it easier for users of Annual Report & Accounts to understand the impact of the transition and it will be easier for the Department to communicate the impacts to its stakeholders.
	8	The Department agrees with the proposed effective date of 1 April 2018 because this date has been widely promulgated and there is an expectation that this is when it will occur. Although the Department thinks the proposed effective date of 1 April 2018 is ambitious given the requirements to build new business processes and to capture new data and the additional compliance burden it will place on finance teams.
	9	The Department agrees with the decision not to adapt the disclosure requirements. It is important to emphasise materiality when preparing these disclosures. When IAS 39 was adopted prepares and auditors took a conservative approach and often over disclosed; a number of recent streamlining projects have highlighted this issue. It may be beneficial to provide sector guidance reinforcing the need to ensure that any new disclosures are only provided where they are material to conveying the entities risks and to telling the entities performance story.
	10	The Department agrees with retaining the exiting IAS 39 interpretations by making them interpretations of IFRS 9 once IFRS 9 is adopted.
	11	The Department is concerned that the UK public sector will face significant challenges in resourcing the implementation of IFRS 9 and building technical capability within finance teams to continue to support IFRS 9 post implementation. This is also like to create budget pressures on finance teams. The Department is concerned that the project timeline is aggressive and under the current proposals further consultation will occur within a narrow window at what is typically a busy time of year.

Department for Work and Pensions (DWP)	*1*	Classification: It is the Departments belief that the new approach will not affect DWP in terms of classification. There are limited changes to financial liabilities with Benefit Overpayments, Social Fund Loans & loan to NEST representing DWP's only significant financial assets. These meet both the business model and cash flow tests and will therefore continue to be accounted for at amortised cost. Impairment Model: Our view is that the requirement to adopt a forward looking expected loss model will not have significant impact on administrative and benefit overpayments and Social Fund loan debts because there is already a "day one" impairment provision applied to these assets equivalent to lifetime expected credit losses. The Department will, however, be reviewing the impairment methodologies but it is unlikely that it would be practically or possible to establish a model that factors in individuals' credit worthiness. It is also the Departments belief that it is unlikely that there would be any one event which would affect the credit risk of our debtors to a material degree and whilst economic conditions may have an overall impact it would, also, be impractical to assess the impact. The Department do, however, plan to discuss practical options for incorporating future looking factors into the calculations with NAO. Hedge Accounting: The Department does not undertake any hedging activity.
	2	The Department is not offering alternative amendments.
	3	The Department will not be affected by the new insurance contract standard because it does not hold any financial guarantee contracts.
	4	The Department is not suggesting an alternative approach.
	5	The Department is not offering an alternative approach [DQ: I had heard from FBP in SPAG that they were looking onto hedging as a way of managing the ESF Forex risk – does anyone have any more on this].
	6	The Department does not undertake any macro hedging.
	7	The Department is not offering an alternative approach.
	8	The Department is not offering an alternative approach.
	9	The Department is not offering an alternative approach.
	10	The Department is not offering an alternative approach.
	11	One aspect that may impact the Departments is the consideration of measurement of loans between different government bodies. DWP has made a loan to the NEST public corporation (which satisfies the principal and interest test) which is recognised at cost.

		It is the Departments belief that there is a question outstanding with HM Treasury, whether the proposed amendments would apply to debt held by the Department which relate to the Other Governments Departments and the Departments its Arm's Length Bodies. If the outcome to this question is that is that such loans should be impaired, that will be a change in treatment of the NEST loan.

The Institute of Chartered Accounts in England and Wales (ICAEW)	*Other*	Support for the Proposals We welcome the opportunity to comment on HM Treasury's exposure draft (ED) on Application of IFRS 9 Financial Instruments for the public sector. We support the proposals as recommended by HM Treasury. There are no compelling reasons to introduce any additional interpretations for public sector adoption of this standard, and it is important to maintain close alignment between the FReM and IFRS. The Consultation Process In contrast to HM Treasury's internal consultation, the external consultation period was very short and consequently ICAEW has not been able to undertake all aspects of its usual due process in the time available. As a result, this representation only sets out some major points rather than addressing the specific questions for comment. Application Guidance The adoption of IFRS 9 will in many cases require system updates and process changes to ensure compliance. HM Treasury should consider producing detailed application guidance, including example disclosure notes, to assist preparers in the transition phase and beyond. Principles-based Standards IFRS 9 is more principles-based than the largely rules-based IAS 39. This high level, principles-based approach to financial reporting has pros and cons but tends to produce better information and more innovative reporting. However, we would highlight the risk that different departments will apply different accounting policies, reducing comparability, increasing audit complexity and making the production of Whole of Government Accounts more complicated. National Accounts Considerations The impairment model in IFRS 9 will lead to provisions being recognised early in the lifecycle of financial instruments. The National Accounts under ESA 10 rules only recognise a provision when it is utilised, as opposed to departmental accounts, which recognise provisions when they are first created. This timing difference may be quite substantial and will need to be understood by policy makers looking at both accounting and statistical information to inform policy decisions. Having informative and transparent disclosures will be of high importance.

Whole of Government Accounts (WGA)	*1*	The new IFRS 9 categories and classification measurement approach may pose a struggle in terms of providing comparative prior year data. WGA will need to tackle this as an implementation issue. In 2014-15 the following financial assets had material eliminations:

Asset*	Pre-Elim	Elimination	Post –Elim

	'bn	'bn	'bn
Current Equity	2.2	0.5	1.7
Current Deposits	93.8	79.3	14.5
Current Loans	380.7	377.5	3.2
Current Other: Derivatives	5.1	0.4	4.7
Current Other: loans & receivables	32.6	25.4	7.2
Current Debt securities	78.3	12.1	66.1
Non-Current Deposits	2.0	1.0	1.0
Non-Current Loans	312.5	250.3	62.2
Total*	907.2	746.5	160.5

*Please note this list of financial assets is not complete. It only includes sub-categories that have material eliminations.

WGA will engage with the 12 entities that make up 98% of the 2014-15 intra-government balances to obtain a more comprehensive understanding of how the implementation of IFRS 9 will affect their accounts and WGA returns. In addition, WGA will engage early with major departments to identify any potential disclosure issues.

2	WGA agree with the proposed amendments. WGA is based on International Financial Reporting Standards, in order to do maintain this approach, the public sector must continue to adopt new standards as they are introduced.
3	From the perspective of WGA, the new insurance contracts standard is not likely to have significant impact. The most significant financial guarantee is eliminated upon consolidation of Network Rail in to Department for Transport's accounts. WGA will work with UKEF to understand any implications as a result of the new insurance contracts standard and the introduction of IFRS 9. At the moment WGA takes into account UKEF's election to use IFRS 4 for its financial guarantee contracts defined as insurance contracts.
4	WGA would prefer a simplified approach to impairment for relevant assets. This will help with the eliminations process and will also ensure consistency in the relevant disclosure notes.
5	WGA would always prefer a consistent approach. However, only a small number of WGA entities utilise hedge accounting and so this is not a material issue for WGA.
6	WGA are not aware of any WGA entities that undertake macro hedging activities.
7	WGA agrees with the adoption of option 2 for the transition approach. Our main concern is consistency across government bodies. If government departments are left with the option to restate the prior year or to make an adjustment to opening balances this is likely to cause a problem at WGA level. WGA would prefer HMT to mandate an approach and we agree with the preferred option of adjustments to opening balances without restatement. WGA would prefer a common approach to transition across the public sector, for example, local government (who are undertaking a similar consultation process) to choose and mandate the same option for transition.

		WGA will encounter implementation challenges with either approach. We think restating prior year balances would be the most challenging. This is because If WGA entities were to restate their financial assets and liabilities for the previous year, they would not be restating for assets/ liabilities that are no longer on the books. This would in turn cause difficulties in aligning up the figures for comparative purposes. However, we acknowledge that this is not an issue that is unique to the public sector.
	8	WGA agree with the proposed effective date for the proposed amendments. It is important to ensure a sufficient lead in time for organisations to capture financial data in a style that will meet WGA requirements. WGA consolidates central government, local government and public corporations. This means bringing together accounts that have been prepared according to the FReM (central government) and accounts that have been prepared according to the CIPFA Code of practice (local government). It is the intention of WGA to have an IFRS 9 proforma template for data capture included in the 2016-17 data collection tool. This will allow sufficient time to receive feedback and apply changes to the template in advance of the implementation date. WGA will engage with the technical working group in order to ensure appropriate consideration of WGA priorities.
	9	WGA agree with the decision for departments to fully adapt the disclosure requirements. From a WGA perspective, we would want to exercise the flexibility given with other standards to have specific adaptions and interpretations of the disclosure requirements – see annex 4 of the WGA publication, Departures from the FReM. Whilst we appreciate the need to align as close to IFRS as possible, the uniqueness of Whole of Government Accounts calls for a simplification of the disclosure requirements. Full disclosure will make it difficult when collating data from a WGA perspective. Both the qualitative and quantitative disclosures will be hard to manage. We have an obligation to disclose financial information in a format that is insightful and informative to the user of the accounts. The impairment model will pose a challenge when it comes to intra government balances. A simpler view from a WGA perspective would be for intra government balances to be recognised without impairments. This would be based on the principle that the government entities cannot default, plus the balances will be eliminated and therefore not appear in the final accounts. With balances that are not intra-government, WGA can set out a materiality level for the purposes of reporting, a standardised template for data collection and define the qualitative information requirements. WGA does not want to increase the disclosure burden already placed on government entities, and will ensure it is in alignment with the WGA simplification and streamlining agenda. IFRS 9 will result in many new and amended disclosure requirements for all entities. WGA would be supportive of consistency in the accounting policy of major government departments.
	10	IAS 39 interpretations should only be rolled forward in areas that are not covered by IFRS9.

Grant Thornton	*1*	No specific comments. In principle, we consider that where IFRS are adopted by the FREM these should be adopted without adaptation unless there are clear reasons why adaptations are necessary in a public sector context to provide more useful information to the reader of accounts or the costs of application outweighs the benefit to the reader of the accounts. In relation to the application of IFRS 9 there are no such compelling reasons and therefore we consider that IFRS 9 should apply without adaptation.

	2	We agree with the proposed amendments to the FREM which reflect our comments that IFRS 9 should be adopted without adaptation in the public sector. The interpretations of IFRS 9 are consistent with those previously made in relation to IAS 39 and we consider that these have on-going relevance to the public sector.
	3	Not applicable to Grant Thornton UK LLP. In relation to our client base of local authorities and NHS bodies, we have not identified any clients currently using the insurance standard and therefore would not expect any changes under the new insurance standard.
	4	Yes, we agree the simplified approach to impairment for the relevant assets listed above be mandated. This will ensure consistency of accounting policy and comparability with a practical advantage in that an entity will not be required to determine whether credit risk has increased significantly since initial recognition. We believe that the benefits of consistency and practical expediency would outweigh the choice of policy.
	5	We are not aware of any NHS or local authority bodies that undertake hedge accounting and therefore do not consider that this would have a significant impact on our client base. As set out in our comments above, in principle we consider that IFRS should be adopted without adaptation unless there are clear reasons why adaptations are necessary in a public sector context to provide more useful information to the reader of accounts or the costs of application outweighs the benefit to the reader of the accounts. Whilst mandating an approach to hedge accounting might result in benefits of consistency, where IFRS 9 allows the continued use of IAS 39 in relation to hedging we believe that that option should be available to public sector entities as this would reduce the burden of preparation without any significant reduction in the quality of information provided in the accounts.
	6	Not applicable to Grant Thornton UK LLP. In relation to our client base of local authorities and NHS bodies, we have not identified any clients currently undertaking macro hedging activities.
	7	We agree with option 2, retrospective application with no restatement, adjusting the opening balances and therefore not doing a prior period adjustment and agree that it is sensible to stipulate a transition approach to ensure consistency across the public sector.
	8	Yes, the proposal for IFRS 9 to be effective from 1 April 2018 is in line with the effective date in the standard. We do not consider there to be any significant reasons why this timetable cannot be achieved. It would be helpful if the FREM requirements were published in advance of the 2018/19 FREM to allow practitioners to prepare for implementation in advance. We note that CIPFA are planning to include the IFRS 9 requirements in an appendix to the 2017/18 Code of Practice Local Authority Accounting to enable practitioners to prepare for the requirements in advance.
	9	In principle, we consider that where IFRS are adopted by the FREM these should be adopted without adaptation unless there are clear reasons why adaptations are necessary in a public sector context to provide more useful information to the reader of accounts or the costs of application outweighs the benefit to the reader of the accounts. Therefore where as a result of IFRS 9 there are additional disclosure requirements that are material then these should be followed. We do however note that the financial instrument disclosures required by IFRS (largely IFRS 7, which is not the subject of the consultation) can be onerous, particularly for smaller public sector organisations with limited exposure to financial instrument risks. We note that FRS101 the Reduced Disclosure Framework, exempts entities from applying the IFRS 7 Financial Instruments: Disclosures in certain circumstances which envisages cost savings in the preparation of financial statements, without reducing the quality of financial reporting. The Treasury may wish to consider whether there may be opportunities to reduce onerous disclosure requirements on smaller entities in the future.
	10	We agree with retaining the existing IAS 39 interpretations and rolling them forward to apply once IFRS 9 is adopted in the public sector. We do not consider that the change in the standard would warrant any change to these interpretations.

	11	We have no other comments.

Annex B: FReM Extract

4 Accounting boundaries

4.1 Accounting boundaries

4.1.3 Where a department has an investment in another public sector entity that has not been designated for consolidation it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS and investments in public sector bodies which would otherwise meet the definition of an associate or joint venture.

6 Applicability of accounting standards

6.1 EU adopted IFRS

6.1.1 A list of EU adopted IFRS is shown in Table 6.1, together with a record of whether they have been adapted or interpreted for the public sector context in this Manual. All standards apply to all reportable activities and reporting entities applying this Manual to the extent that each standard is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities. Where adaptations or interpretations are different for ALBs this is identified below.

Table 6.1

International Standard	Applies without adaptation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 9 Financial Instruments		●		

6.2 Interpretations and adaptations for the public sector context

6.1.2 6.2.1 Table 6.2 provides details of those adaptations and interpretations for the public sector context. Where an adaptation or interpretation to a Standard results in an inconsistency with a related Interpretation issued by the IFRS Interpretations Committee (IFRIC) or Standards Interpretations Committee (SIC), that Interpretation is similarly adapted or interpreted. In all other case, IFRIC and SIC Interpretations will apply in full.

6.1.3 Chapter 10 of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts

Table 6.2

IFRS 9 Financial Instruments	
Interpretations	(1) Any financial instrument that is not held in furtherance of the entity'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.

	(2) 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. (3) PDC should be reported at historical cost, less any impairment. (4) 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 (promulgated in PES papers) as applied to the flows expressed in current prices. (5) The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime expected credit losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets. (6) The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk). (7) The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.
Adaptations	TBC
IFRS 11 Joint Arrangements	
Adaptations	In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department in accordance with IFRS 10, and not as a joint arrangement under IFRS 11. Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles. Agencies should follow the requirements of IFRS 11 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary. Departments and agencies should apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by the ONS. ALBs should apply IFRS 11 without adaptation. **Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.**
IAS 28 Investments in Associates	
Adaptations	In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department. Therefore the public sector entity will be included in one department's consolidation order and will be consolidated by that department in accordance with IFRS 10.

	Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles. Agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary. Departments and agencies should apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by the ONS. NDPBs and trading funds should apply IAS 28 without adaptation.

7 Further guidance on accounting for assets and liabilities

7.1 Property, plant and equipment (PPE)

Accounting for PPP arrangements, including PFI contracts, under IFRS

7.1.62 The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IFRS 9.

8 Further guidance on accounting for income and expenditure

8.2 Consolidated Fund revenue

Trust Statements

8.2.15 Trust Statements shall also include the following expenditure:

a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;

b) the costs of compensating (limited to repayments and interest) those from whom taxes or penalties have been incorrectly collected. Other elements of compensation and related costs shall be accounted for in departmental accounts; and

c) any allowance for uncollectible amounts measured in accordance with IFRS 9.

10 Whole of Government Accounts

10.2 Accounting standards applied to Whole of Government Accounts

10.2.1 This section summarises the applicability of accounting standards to WGA. Changes to adaptations and interpretations of standards from those detailed in Chapter 6 that apply to WGA are explained in the paragraphs below.

IFRS 9 Financial instruments

10.2.2 IFRS 9 is interpreted for WGA in the same way that is interpreted for the financial statements of reporting entities covered by this Manual, with the exception that all public sector financial instruments shall be consolidated into WGA and shall not be included in a separate Trust Statement.

Annex B – FReM Extract