HM TREASURY

Financial Reporting Advisory Board Paper

IFRS 9 – Application Guidance

Issue:	To provide the Board with a draft of the IFRS 9 application guidance, this incorporates adaptations agreed at previous meetings.
Impact on guidance:	Yes, see Annex
IAS/IFRS adaptation?	Yes, as previously agreed with the FRAB
Impact on WGA?	Yes
IPSAS compliant?	Yes
Interpretation for the public sector context?	Yes, as previously agreed with the FRAB
Impact on budgetary and Estimates regimes?	To be confirmed
Alignment with National Accounts	To be confirmed
Recommendation:	The Board are asked to provide any comments on the draft application guidance.
Timing:	For comments only. The Board will formal approve changes to the FReM at the November meeting.

Background

1. Attached is the first draft of the application guidance for departments on IFRS 9. It incorporates decisions taken at previous FRAB meetings on interpretations and adaptations for the public sector context. These have been extracted from the guidance and set out below for clarity.
2. The Board agreed the following interpretations of IFRS 9 for the Public Sector context:
   - 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;

- 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;

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

- 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;

- 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significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime ECLs. 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); and

- 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.

3. The Board agreed the following adaptations of IFRS 9 for the public sector context.

   - Balances with core central government departments (including their executive agencies), the Government's Exchequer Funds[1], and the Bank of England are excluded from recognising stage-1 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 impairments. ALBs are excluded

[1] Government's Exchequer Funds include: National Loans Fund (NLF); Consolidated Fund (CF); Contingencies Fund; Exchange Equalisation Account (EEA); Debt Management Account (DMA); Public Works Loan Board (PWLB); and Commissioners for the Reduction of the National Debt (CRND).

from the exemption unless they are explicitly covered by a guarantee given by their parent department; and

- Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.

Summary and recommendation

4. The Board are invited to note the proposed adaptations and interpretations and provide any comments on the draft guidance.

HM Treasury
15 June 2017