MINUTES OF THE 129th FRAB MEETING HELD ON THURSDAY 16 MARCH 2017
AT HM TREASURY

Present:	Ian Mackintosh (Chair)	Alison Scott
	Andrew Buchannan	Larry Honeysett
	David Hobbs	Vicky Rock
	Ruth Elliot	Ron Hodges
	David Aldous	Alison Scott
	Gawain Evans	

On the phone:	Aileen Wright, Sarah Sheen (CIPFA), Russell Frith, Anthony Appleton, and Andrew Baigent
Secretariat:	Ian Bulmer (FRAB Secretary)
Apologies:	Neil Hartley, Craig Mackinlay MP, Gareth Caller, Veronica Poole, Joanne McBurney, Bob Branson

AGENDA ITEMS (in order tabled)

1. IFRS 9 update
2. IFRS 15 update
3. IFRS 16 update
4. Discount rates
5. Local government update
6. FRAB terms of reference
7. FRAB forward agenda

Matters Arising

1. The Chair welcomed members to the meeting, noting that the attendance was lower than usual. He encouraged all FRAB members to attend future meetings in person, recognising that unforeseen circumstances can arise.

Item 1: IFRS 9 update

2. Treasury introduced a paper providing the Board with an update on the three outstanding actions from the November meeting - the application of the impairment model within the public sector, the impact on financial guarantee contracts and the development of the application guidance. The Board considered each of these issues.

Application of impairment model

3. At the November meeting the Board requested additional analysis on the options presented on where the boundary should be drawn to apply an impairment exemption. The technical working group has since assessed and discussed the practicalities of applying either option 3 (central government core departments and central funds) and option 4 (all entities within departmental consolidation boundaries and central funds). They concluded option 3 was required as a minimum but option 4 would not be appropriate due to instances of subsidiaries within departmental boundaries having different credit ratings to the sponsor department. They group proposed an enhanced version of option 3 that includes all core central government departments, their executive agencies, central funds and the Bank of England.

4. Andrew Buchannan suggested the Board take a step back and look again at what we are trying to achieve by applying an exemption and think about the public sector as a corporate group. Vicky Rock clarified that Treasury are trying to identify the extent of the crown boundary as entities within this group are not distinct legal bodies. This would help resolve where there was indivisible credit risk and to what extend the crown status extended to the bodies within the departmental group.

5. The Chair suggested the decision was similar to determining what are classified as reporting entities and the proposal appeared to be a common sense solution for bodies within the crown.

6. David Aldous agreed with the Treasury assessment, but highlighted the importance of providing clear guidance to those bodies outside the crown boundary. Russell Frith asked whether the crown status extended to the devolved administrations. Gawain Evans confirmed it was for Wales and Treasury confirmed it was the case for the other devolved administrations.

7. Andrew Buchannan asked whether there were bodies outside the crown boundary that had guarantees underwritten by the sponsor department, therefore there was a risk of these entities undertaking significant work for no ultimate benefit. Vicky Rock agreed this may be the case and suggested that application guidance should set out the principles for identifying the extent of the crown boundary, including that if an entity has a department guarantee then it should also be covered by the exemption. Vicky Rock highlighted recent feedback from Andrew Baigent suggesting the Health sector have this issue. The majority of entities outside the health crown boundary carried a statutory guarantee that effectively meant they carried the same credit risk as the core department. The Health Manual would be updated to specify how the impairment exemption would be applied within the health sector to all entities carrying the same credit risk as the department.

8. The Board agreed with this proposal.

Impact on financial guarantee contracts

9. Treasury then asked the board to endorse the two proposed amendments to IFRS 4. The amendments have been introduced by the IASB to address insurer concerns about applying IFRS 9 before IFRS 17 becomes effective. UK Export Finance (UKEF) are likely to be the only government department impacted and their early assessment is that they are eligible to utilise one of the amendments (the deferral approach) to defer the effective date of IFRS 9 until the earlier of IFRS 17's effective date or 2021. This is allowable under IFRS.

10. The Chair explained the decision for this Board was whether to adopt the amendments to the Standard and it was up to UKEF to decide their own accounting policy. He clarified there were three options available to UKEF: apply IFRS 9 in full in 2018-19; the overlay approach; or the deferral approach.

11. Vicky Rock confirmed UKEF could adopt IFRS 9 in line with the rest of government and that their decision on choice of accounting policy did not materially impact on the Whole of Government Accounts. The Chair reiterated that this Board did not need to approve UKEF accounting policy but he did not see the benefit of adopting the deferral approach. Treasury confirmed UKEF had completed this analysis, but were not asking for an amendment to the FReM as the deferral approach is an allowable option of IFRS 4 if the necessary criteria are met.

12. The Board then agreed to endorse the amendments to IFRS 4 in full. The Treasury offered to provide the Board with UKEF's underlying analysis as an out-of-meeting paper, for information purposes only.

Application Guidance

13. The Treasury explained their approach to issuing guidance for new standards should be specific to public sector issues and not general application guidance for applying the Standard's requirements. The technical working group had considered the topics for inclusion in the guidance and agreed it should focus on areas of particular difficulty (such as the business model assessment in the public sector) and where the Treasury have decided to mandate a particular treatment. The Board were asked for their views on this approach.

14. David Aldous asked Treasury to ensure the application guidance did not suggest additional disclosure requirements above what is required by the Standard. Treasury agreed.

15. There were no further comments from the Board.

Item 2: IFRS 15 update

16. The Board were asked to note the progress made to date on the IFRS 15 implementation. At the last meeting the Board received responses to the exposure draft consultation and subsequent minor amendments to improve clarity in the FReM. The Board agreed with these proposals and the development of the application guidance to assist preparers. Similar to IFRS 9 the application guidance is not intended to be a comprehensive set of guidance as the Standard itself provides sufficient detail, but will focus on public sector specific issues highlighted through the technical working group and exposure draft consultation. The guidance is expected to cover the interpretation of legislation as a proxy for a contract, the distinction between revenue and taxes, transition arrangements and illustrative disclosures.

17. The Treasury explained that the Whole of Government Accounts team are also reviewing the Standard to consider how they need to adjust their data collection requirements to obtain the required information. The team will provide early insights to preparers so they can prepare for the WGA change in advance of implementation.

18. The draft guidance is expected to be presented to the Board at the June meeting with the final guidance issued with the 2018-19 FReM in November.

19. The Board noted progress made.

Item 3: IFRS 16 update

20. The Treasury explained the progress made since the last Board meeting. The technical working group has now been established with representatives from departments, CIPFA and trading companies covering both property and non-property leases. The Scottish relevant authority are running a similar process and Treasury will work closely with the devolved administrations to combine expertise and share insights.

21. The focus on the initial meetings has been understanding the concepts used in the new Standard and identifying any significant accounting concerns. Treasury explained the group have identified some initial topics for discussion, including (1) how to define a low value asset, (2) the identification of a lease, (3) additional information required from suppliers, (4) discount rates and (5) the use of practical expedients to ensure consistency in application. The group are not considering the budgeting implications in detail as the ONS parallel process needs to establish how ESA 10 should be applied to leases from the National Accounts perspective.

22. The Treasury are also looking at international developments and noted both GASB and IPSASB are moving away from the IASB/FASB lessor accounting and seeking symmetry in lessee and lessor accounting. Treasury noted they would draw on this analysis to help inform the work for the UK.

23. Andrew Buchannan commented on the definition of low value items noting that it should be considered regardless of the entity's capitalisation threshold of the entity or the number of contracts for the assets. He also commented that the lessor's incremental rate could prove difficult to obtain so Treasury should actively consider what lessee discount rate should apply.

24. The Chair asked what specifically where GASB and IPSAB thinking of changing. Treasury explained it was lessor accounting, suggesting it would be rare for the public sector to be a lessor outside the public sector boundary. Alison Scott stated this may be significant for local authorities, but it had not yet been quantified. Andrew Baigent also suggested it would be significant for Health, given their arrangements with GP's.

25. Vicky Rock mentioned that having two separate frameworks for financial reporting and national accounts would be challenging and while grateful for ONS input, their work plan should run in parallel with the accounting working group. David Hobbs stated the ONS were establishing their own working groups and noted the Standard excludes PFI's.

26. Andrew Buchannan noted there was a fundamental issue on determining whether a contract was a lease and the private sector had faced difficulties in this area.

Item 4: Discount Rates

27. The Treasury introduced the paper, explaining the November FRAB meeting agreed with the proposal to undertake a review of the discount rate methodology. This paper provided a project plan for the Board and asked for views on the scope, objectives and timing of the review. Initial findings will be presented to the Board in June, formal consultation undertaken over the summer and final recommendations presented to the Board in November.

28. Russell Frith queried whether there were links between this project and policy methodologies on what discount rate to apply, for example, when calculating compensation payments. No direct links were identified.

29. Anthony Appleton asked whether there was a wider issue across the public sector and why they are different to the private sector. He noted the private sector faced similar difficulties

so was it an issue with the standard itself or something that could be solved by this group. The Chair noted that this was a question of whether the right methodology was being used.

30. Vicky Rock confirmed the review had been initiated independently of the discount rate setting process for compensation cases, but the Treasury would be assessing the policy interaction in case there were any consequential effects. She explained that there were broader issues particular to the public sector, noting the review was an opportunity to look at the rationale, the conceptual understanding of the Standard and the application of the discount rate methodology. Ron Hodges asked about the pension's discount rate, noting it was positive and highlighting that liabilities in WGA have increased substantially and that the use of negative discount rates may complicate an understanding of the accounts.

31. Andrew Buchannan noted that the inflation assumption was important in the methodology and while he agreed with the review the Treasury should not diverge from the requirements in IFRS. The Chair reinforced this, noting the Standard required this so the focus should be on the methodology used to calculate the rate.

32. Vicky Rock asked the Board whether they felt that unfunded pension schemes were best compared to funded schemes or to unfunded provisions. After discussion the Board agreed that funded pension schemes were the best comparator and the Chair explained that in a funded scheme the liabilities were valued independently of scheme assets.

33. Anthony Appleton asked why pensions and provisions were different and whether the distinction was due to the accounting standards definition of the discount rate. He was reluctant to make amendments that departed from the Standards. Andrew Buchannan noted he was on the interpretations committee for the pensions and explained it was a judgement call to use high quality bonds to inform the discount rate.

34. David Hobbs mentioned the ONS used a static rate for pensions of 3% real and 5% nominal. These had been established by Eurostat a number of years ago. He questioned whether the review might consider a static rate to drive stability and year on year comparability. Ron Hodges recognised that negative rates were a difficulty, but reiterated that if Treasury were proposing to change the methodology it would require a very strong case.

35. The Chair summarised the discussion and stated it was important for the Treasury to meet the timetable set out in the paper.

Item 5: Local Government Update

36. Alison Scott provided an updated on issues in local government. She explained that CIPFA/LASAAC had decided to delay the implementation of depreciated replacement cost for highways assets, primarily due to ongoing delays in the provision of central rates information. Alison explained they would only reconsider this decision once the benefits outweighed the costs. Alison noted that Treasury, the Department for Transport and CIPFA were meeting on 23rd March to resolve the remaining issues. If the issues couldn't be resolved then she was keen to explore whether there was an alternative solution for the Whole of Government Accounts.

37. She noted that the detailed CIPFA/LASAAC would not consult again fully on IFRS 9 and 15 but that consultation on detailed implementation was ongoing with local authorities and that CIPFA/LASAAC were planning a post implementation review of IAS 19.

38. There were no further comments from the Board.

Item 6: FRAB Terms of Reference

39. The Treasury explained that the terms of reference for the FRAB were last updated in 2011 so they were due for a review by the Board.

40. Larry Honeysett mentioned the public administration and constitutional affairs committee (PACAC) report into government accounts was expected shortly. He explained there may be recommendations regarding the FRAB that should be considered during this review.

41. The Board agreed to provide email comments to the FRAB secretary, who would provide an updated version for the Board to agree at the June meeting.

Item 7: Forward Agenda

42. The Chair introduced this item by explaining the purpose was to provide the Board with an indicative list of forward agenda items for information only. He emphasised the topics were illustrative and subject to change. The Board agreed this should a standard item for future meetings. Andrew Buchanan suggested including the IASB's materiality practice statement on the forward agenda.

Item 8: Any Other Business

43. There was no other business. The Chair thanked the Board for their contributions and discussion.

Date of next meeting: 15th June 2017