HM TREASURY

FRAB (133) 11
14 June 2018

Financial Reporting Advisory Board Paper

Annual Improvements Cycle 2015-2017 (and other narrow scope amendments)

Issue:	The IASB has made a number of narrow scope amendments, including those as a part of their Annual Improvements process, which are currently under consideration for adoption by the European Union. This paper considers amendments made and their implications for public sector financial reporting. HM Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.
Impact on guidance:	No impact identified.
IAS/IFRS adaptation?	None noted.
Impact on WGA?	None identified at this stage.
IPSAS compliant?	IPSAS future work programme expected to address IFRS narrow scope amendments.
Interpretation for the public sector context?	No interpretations required.
Impact on budgetary regime?	None noted.
Alignment with National Accounts	No alignment issues identified
Impact on Estimates?	None noted.
Recommendation:	HM Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.
Timing:	See 'ANNEX' for effective dates.

DETAIL

Background

1. The IASB has issued a number of narrow scope amendments, including as part of their Annual Improvements' process for 2015 to 2017, which are currently under consideration for adoption or have been adopted by the European Union.

2. The Board has considered narrow scope amendments and their implications for public sector financial reporting in the past. A paper was presented to the Board in May 2013 on previous narrow scope amendments and additionally in March 2013 and March 2016 'out of meeting' papers were distributed to the Board for consideration.

3. The Annex indicates what these amendments are and HM Treasury's view as to whether there are any public sector specific financial reporting impacts that may require further work to be performed and the relevant effective dates of the amendments. No immediate further action, at this stage, is required as a result of the amendments considered in this paper. Only one of the amendments considered has been adopted by the European Union (IFRIC 22 interpretation).

Impact on accounting treatment and disclosures

4. Whilst no amendments to the FReM are proposed (at this stage), reporting entities will need to ensure that they are compliant.

IAS/IFRS compliance

5. No adaptations or interpretations have been identified as required.

IPSAS compliance

6. IPAS strategic workplan 2015-17 set out amendments to IPSASs based on the IASB's Annual Improvements' cycle (2015-17) and narrow scope amendments projects.

Proposed text for the Government Financial Reporting Manual

7. No amendments to the FReM are proposed.

Impact on the budgetary regime

8. No impact on budgetary control has been identified.

Summary and recommendation

9. HM Treasury ask that the Board note that a number of narrow scope amendments have been issued by the IASB and seek the Board's comments on the public sector financial reporting implications where appropriate.

HM Treasury
14 June 2018

ANNEX

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
Not yet EU adopted as at the time of this paper				
IFRIC 23- Uncertainty over Income Tax Treatments (Interpretation)	1 January 2019	TBC	The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. Whether tax treatments should be considered collectively An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. Assumptions for taxation authorities' examinations An entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.	None noted. Any central government organisation considered part of the Crown cannot take HMRC to court. Large projects that have major/ uncertain tax implications are agreed with HMRC beforehand.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates This is a two-stage test. If it is probable that a tax authority will accept an uncertain tax treatment, then the tax position recorded in the entity's accounts should be consistent with what is or will be used in its tax returns. However, if it is not probable that a tax authority will accept a particular uncertain tax treatment, then an entity must use either the most likely amount or the expected value, depending on which method it expects to better predict the resolution of the uncertainty. The appendix to IFRIC 23 has a number of examples of how to apply this. Effect of changes in facts and circumstances An entity has to reassess its judgements and estimates if facts and circumstances change or new information becomes available.	
IFRS 3- Business Combinations and IFRS 11- Joint Arrangements (Annual improvement cycle 2015-2017)	1 January 2019	TBC	IFRS 3: Sometimes an entity which is a party to a joint arrangement in a business that is a joint operation (as defined in IFRS 11 Joint Arrangements) subsequently obtains control of that joint arrangement. The amendment to IFRS 3 clarifies that, if and when an entity subsequently obtains control, it must remeasure its previously held interest at the acquisition-date fair value. The entity recognises any difference between the joint operation's acquisition-date fair value and previous carrying value as a gain or loss.	Central government is in many joint ventures with private sector entities. These are usually minority holdings but due to adverse conditions could become majority holdings.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
			The amendment therefore means that when a party to a joint operation obtains control, it applies the same requirements already in IFRS 3 that apply to business combinations achieved in stages. IFRS 11: The amendment to IFRS 11 deals with a related (but different) transaction to that dealt with by the above amendment to IFRS 3. It addresses situations in which an entity is a party to a joint arrangement that is a joint operation (as defined in IFRS 11 Joint Arrangements) – but, importantly, does not have joint control of the joint operation – and subsequently obtains joint control. The amendment clarifies that if and when the entity subsequently obtains joint control, it must not remeasure its previously held interest. The amendment therefore aligns with the accounting applied to transactions in which an associate becomes a joint venture and vice versa.	Public sector exclusive joint ventures are considered under common control which IFRS 3 considers outside of its scope.
IAS 12- Income Taxes (Annual Improvement Cycle 2015-2017)	1 January 2019	TBC	The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits	None noted.

Narrow scope amendment	Effective date: periods beginning on or after	FReM introduction effective date (subject to EU adoption)	Summary of changes	Public sector specific reporting issue
IAS 23- Borrowing Costs (Annual Improvement Cycle 2015-17)	1 January 2019	TBC	When an entity uses funds borrowed generally for the purposes of constructing a qualifying asset, paragraph 14 of IAS 23 requires it to apply a capitalisation rate to the expenditure on that qualifying asset. This capitalisation rate is the weighted average of the entity's borrowings that are outstanding during the period, excluding borrowings made specifically for constructing that, or any other, qualifying asset. The amendment to IAS 12 clarifies that once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such that borrowing costs incurred on the specific borrowings can no longer be capitalised as part of the cost of that qualifying asset), those borrowings then become part of the pool of general borrowings. Therefore, from that date, the rate applied on those borrowings are included in the determination of the capitalisation rate applied to general borrowings for the purposes of paragraph 14.	None noted.
IFRIC 22 **– Foreign Currency Transactions and Advance Consideration** (Interpretation)	1 January 2018	2018-19	IFRIC 22 provides clarity on what exchange rate is to be used when accounting for foreign transactions. The exchange rate to be used is the one on the date that the transaction is agreed in principle, even if the actual transaction doesn't take place on that date. If there are multiple transactions in advance, the entity shall determine the date the transaction was agreed for each payment. The application of this Interpretation is retrospective or prospective	Those entities with material forex balances should consider if this interpretation affects how it accounts for foreign exchange transactions.

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Amendments to IAS 28: Long term interests in Associates and Joint Ventures (Amendment)	1 January 2019	TBC	IFRS 9 Financial Instruments excludes from its scope interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. However, the IFRS Interpretations Committee received a submission asking whether that scope exclusion applies only to interests in associates and joint ventures to which the equity method is applied. The amendments in Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) are: • Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. • Paragraph 41 has been deleted because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests	None noted
Amendments to IAS 19 Employee Benefits	1 January 2019	TBC	The amendments in Plan Amendment, Curtailment or Settlement are: • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.	None noted. The amendments allow organisations to measure particular prepayable financial assets with so-called negative

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			• In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.