HM TREASURY

FRAB 135(11)
4th April 2019

Financial Reporting Advisory Board paper

IFRS amendments and annual improvement cycle – update

Issue:	Annual IFRS amendments or interpretations have been reviewed by HM Treasury to ensure that any relevant public-sector adaptations or interpretations are adequately reflected in the financial reporting guidance.
Impact on guidance:	The 2019-20 FReM can be updated if adaptations or interpretations are required.
IAS/IFRS adaptation?	No adaptations or interpretations proposed.
Impact on WGA?	None.
IPSAS compliant?	This would depend on whether IPSASB make adjustments for the new IFRS amendments, interpretations or discussed in this paper. It is likely, however, that IPSAS would align to our proposals.
Interpretation for the public-sector context?	No adaptations or interpretations proposed.
Impact on budgetary regime and Estimates?	Accounting changes may have a knock-on effect on budgets, but these would be minimal and the implementation of the new amendments or interpretations will not cause any budget to account misalignments.
Alignment with National Accounts	Yes, the changes will not impact on National Accounts, either as they already follow IFRS or there separate budgeting treatments already in place to adjust data for National Accounts.
Recommendation:	For the Board to note, in particular that HM Treasury proposes to make no adaptations or interpretations in relation to the new amendments or interpretations.
Timing:	We ask the Board to make a final decision on these issues at this meeting—this is particularly important to give clarity to those departments applying IFRS 16 from 1 April 2019.

DETAIL

Amendments or interpretations effective from 1 January 2019

1. Appendix 1 lists seven amendments or interpretations now effective from 1 January 2019, which have also been EU endorsed. Six of these seven were reviewed by FRAB in June 2018 (FRAB 133 (11) and no public sector amendments or interpretations were proposed. A further decision was then made at the November FRAB not to make any adjustment to the 18/19 FReM for any of the seven new amendments or interpretations, given their impact was minimal and given they were at that point they were not all EU endorsed.

2. The appendix summarises the amendments and interpretations and provides further detail on the likely impact they will have across central government. As noted in the November FRAB, their likely impact will be limited and we do not believe any public-sector adaptations or interpretations are required to adjust for their implementation.

Amendments or interpretations issued but not yet effective

3. Appendix 2 lists three sets of amendments that are issued but not yet effective (and not yet EU endorsed).

4. The appendix again summarises the amendments and the likely impact they will have across central government. As the appendix details, their likely impact will be limited and we do not believe they have any public-sector adaptations or interpretations are required. Further guidance or clarification relating to these amendments could be included in future FReMs as relevant. This will be considered as the FReM is updated in later periods.

Projects where standards, amendments or interpretations are in development

5. Appendix 3 lists 15 projects where amendments, interpretations or disclosure initiatives are in development. These include new narrow scope amendments and a new annual improvement cycle. HM Treasury will review what impact these amendments, interpretations or disclosure initiatives will have as they are issued.

Appendix 1: Amendments or interpretations issued and effective from 1 January 2019

Standard (amendment/ new)	Effective date	FReM Application	Summary	Central Government Impact
Not reviewed by FRAB in June 2018, as included as part of the IFRS 9 implementation				
IFRS 9 – Financial Instruments: Prepayment features with negative compensation (Amendments)	1 January 2019 (EU Endorsed 22 March 2018)	No change to FReM required, application in line with effective date	The amendments deal with how to classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed (such a prepayment amount is often described as including 'negative compensation'). The amendments allow organisations to measure particular prepayable financial assets with so-called negative 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	Common/minimal – These types of financial instruments are not believed to be common across government, but entities should be aware of the amendment and, if affected, should refer to the IFRS amendment and updated Basis for Conclusions to understand the implications of the amendment. No public-sector adaptation/interpretation proposed.
Reviewed by FRAB in June 2018				
IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements: Previously held arrangements in a Joint Operation (Annual improvement cycle 2015-2017)	1 January 2019 (EU Endorsed 14 March 2019)	No change to FReM required, application in line with effective date	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, 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. 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.	Common – Central government is in many joint ventures with private sector entities. These are usually minority holdings. In the case of any joint ventures that fail and the Crown assumes full control these amendments will apply (and revaluation will be required). Public sector exclusive joint ventures are considered under common control which IFRS 3 considers outside of its scope. Existing adaptations exist where business combinations for the purposes of consolidation are

Standard (amendment/ new)	Effective date	FReM Application	Summary	Central Government Impact
			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 (in contrast to single control in IFRS 3 above). The amendment clarifies that when, and if, 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.	determined by statute as set out in the Designation Order. No public-sector adaptation/interpretation proposed.
IAS 12 – Income Taxes: Income Tax Consequences of payment on instruments classified as equity (Annual Improvement Cycle 2015-2017)	1 January 2019 (EU endorsed 14 March 2019)	No change to FReM required, application in line with effective date	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 – IAS 12 is not relevant to central government Annual Reports and Accounts. No public-sector adaptation/interpretation proposed.

Standard (amendment/ new)	Effective date	FReM Application	Summary	Central Government Impact
IAS 19 – Employee Benefits: Plan amendment, curtailment or settlement (Amendments)	1 January 2019 (EU endorsed 13 March 2019)	No change to FReM required, application in line with effective date	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. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	Common – The impact will be limited to civil service pension schemes, when there is a plan amendment, curtailment or settlement. No public-sector adaptation/interpretation proposed.
IAS 23 – Borrowing Costs: Borrowing costs eligible for capitalisation (Annual Improvement Cycle 2015-17)	1 January 2019 (EU endorsed 14 March 2019)	No change to FReM required, application in line with effective date	IAS 23 Borrowing Costs specifies which borrowing costs should be capitalised as part of the cost of a qualifying asset—i.e. an asset that takes a substantial period of time to get ready for its intended use or sale. The amendments clarify that when a qualifying asset is ready for its intended use or sale, a company treats any outstanding borrowing to obtain that qualifying asset as part of general borrowings.	Minimal – Central government entities do not undertake their own borrowing, apart from in specialised circumstances. Where departments consolidate entities that do undertake borrowing (such as DCMS in relation to the BBC), they should be aware of the amendments and refer to the published IFRS 2015-17 Annual Improvement Cycle publication for further detail. No public-sector adaptation/interpretation proposed.
IAS 28 – Investments in Associates and Joint Ventures: Long term interests (Amendments)	1 January 2019 (EU endorsed 8 February 2019)	No change to FReM required, application in line with effective date	IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. However, previously it is not clear whether that exclusion applies only to interests in associates and joint ventures to which the equity method is applied.	Some – Central government is in many joint ventures and holds many investments with private sector entities. These are usually minority holdings. The amendments clarify exclusion requirements that were likely already going to be applied by most entities. However, entities that are affected should

Standard (amendment/ new)	Effective date	FReM Application	Summary	Central Government Impact
			The amendment clarifies that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.	refer to the published amendment and updated basis for conclusions for further detail. No public-sector adaptation/interpretation proposed.
IFRIC 23 – Uncertainty over Income Tax Treatments (Interpretation)	1 January 2019 (EU endorsed 23 October 2018)	No change to FReM required, application in line with effective date	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. The interpretation primarily covers: • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • Effect of changes in facts and circumstances	None – IAS 12 is not relevant to central government Annual Reports and Accounts. No public-sector adaptation/interpretation proposed.

Appendix 2: Amendments or interpretations issued but not yet effective

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
Conceptual Framework (including amendments to references to the conceptual framework in IFRS standards)	1 January 2020 (amendments to references to the conceptual framework in IFRS standards issued but pending EU endorsement)	2019-20 Early adoption permitted for 18-19	The revised Conceptual Framework, issued by the Board in March 2018, includes: • a new chapter on measurement; • guidance on reporting financial performance; • improved definitions of an asset and a liability, and guidance supporting these definitions; and • clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.	Minimal – The framework will only be relevant to preparers in exceptional circumstances where existing reporting standards cannot be applied and a bespoke accounting treatment must instead be developed from the principles in the Framework. HM Treasury will review the implications of these changes and follow due process once the amendment has endorsed by the EU. Any substantive changes to the FReM will be approved by the FRAB and communicated appropriately.

IFRS 3 – Business Combinations: Definition of a Business
 	
(Amendments)
	1 January 2020 (pending EU endorsement)	2019-20 or 20-21	The amendments clarify the definition of a business and:
			
			• confirm that a business must include inputs and a process, and clarify that:
			  ○ the process must be substantive; and
			  ○ the inputs and process must together significantly contribute to creating outputs.
			• narrow the definitions of a business by focusing the definition of outputs on goods and services provided to
				Minimal – While there may be substantial investments held in businesses outside the public-sector boundary, it is unlikely the amendments will significantly affect public sector account preparers. Preparers should be aware of how IFRS 3 is interpreted for the public sector and refer to chapter 4 of the FReM for further detail.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary	Central Government Impact
			customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and • add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.	HM Treasury will review the implications of these changes and follow due process once the amendment has endorsed by the EU. Any substantive changes to the FReM will be approved by the FRAB and communicated appropriately.
IAS 1 and IAS 8 – Disclosure initiative: Definition of material (Amendments)	1 January 2020 (pending EU endorsement)	2019-20 or 20-21	The amendments clarify the definition of material and its application by: • aligning the wording of the definition of material across all IFRS Standards and other publications and making minor improvements to that wording; • including some of the supporting requirements in IAS 1 Presentation of Financial Statements in the definition to give them more prominence; and • clarifying the explanation accompanying the definition of material.	Common – While updates to the concept of materiality will affect all account preparers, the amendments are unlikely to result in significant changes to materiality limits or disclosures. Nevertheless, preparers should be aware of the changes. HM Treasury will review the implications of these changes and follow due process once the amendment has endorsed by the EU. Any substantive changes to the FReM will be approved by the FRAB and communicated appropriately.

Appendix 3: Projects where standards, amendments or interpretations are in development

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary
IFRS 1 – First time adoption of IFRS: Subsidiary as a first-time adopter (Amendments)	Effective date not yet agreed	To be advised	Proposal to require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS Standards (subject to any adjustments made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary). Pending publication of exposure draft.
IFRS 3 – Business Combinations: Updating a reference to the conceptual framework (Amendments)	Effective date not yet agreed	To be advised	The proposed amendment will update further references to the conceptual framework in IFRS 3, not already covered by the existing amendments to IFRS for the new conceptual framework.
IFRS 9 – Financial Instruments: Fees in the '10 per cent' test for derecognition	Effective date not yet agreed	To be advised	Proposal, as part of the next Annual Improvements Cycle, for clarification of the requirements in the first sentence of paragraph B3.3.6 of IFRS 9. The amendment will say that when carrying out the '10 per cent' test for assessing whether to derecognise a financial liability, an entity includes only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on the other's behalf. Pending publication of exposure draft.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary
(Annual improvement cycle)			
IFRS 16 – Leases: Lease incentives, update to illustrative example (Amendments)	Effective date not yet agreed	To be advised	The proposed amendment would remove from illustrated example 13 the reimbursement of leasehold improvements by the lessor. ED to be published.
IFRS 17 – Insurance contracts: Amendments	Effective date not yet agreed	To be advised and implementation work plan underway to assess	The proposed amendments respond to stakeholder concerns on IFRS 17 implementation and cover the following issues: • level of aggregation; • credit cards that provide insurance coverage; • transition requirements—risk mitigation option; • transition requirements—loans that transfer significant insurance risk; • amendments to disclosure requirements; and • other implications for disclosure and transition requirements.
IAS 1 – Presentation of financial statements: Classification of liabilities as current or non-current (Amendments)	Effective date not yet agreed	To be advised	Proposal to amend paragraph 73 of IAS 1 to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms. The results of the exposure draft are pending discussion.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary
IAS 8 – Accounting policies and Accounting Estimates (Amendments)	Effective date not yet agreed	To be advised	Proposal to amend the definitions of accounting policies and changes in accounting estimates to: • Clarify the definitions of accounting policies and of changes in accounting estimates with the objective of making them more concise and distinctive; • Clarify how accounting policies and estimates relate to each other; • Add guidance about whether changes in valuation techniques and in estimation techniques are changes in accounting estimates; and Update examples of estimates provided in IAS 8. Pending board discussion on exposure draft results.
IAS 8 – Accounting policy changes (Amendments)	Effective date not yet agreed	To be advised	Proposal to amend IAS 8 to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. Pending feedback on the exposure draft.
IAS 12 – Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Narrow scope amendments)	Effective date not yet agreed	To be advised	Proposal for a narrow-scope amendment that would narrow the initial recognition exemption in paragraphs 15 and 24 of IAS 12 so that it would not apply to transactions that give rise to both taxable and deductible temporary differences, to the extent the amounts recognised for the temporary differences are the same.
IAS 16 – Property, plant and Equipment: Proceeds before intended use	Effective date not yet agreed	To be advised	Proposal for a narrow-scope amendment to IAS 16 Property, Plant and Equipment is proposed to prohibit the deduction of proceeds from selling items produced from the cost of PPE, before the item of PPE can operate as intended by management. Instead, the company would recognise those sales proceeds and related costs in profit or loss. Pending further board discussion.

Standard (amendment/ new)	Effective date – beginning on or after (EU Adopted?)	FReM Application?	Summary
(Amendments)			
IAS 37 – Onerous contracts: Cost of fulfilling a contract (Narrow scope amendment)	Effective date not yet agreed	To be advised	Proposal for a narrow-scope amendment to clarify the meaning of the term 'unavoidable costs' in the IAS 37 definition of an onerous contract. Exposure draft currently open for comments.
IAS 41 – Agriculture: Taxation in Fair value measurement (Annual improvement cycle)	Effective date not yet agreed	To be advised	Proposal to follow the IFRS Interpretation Committee recommendation to propose an amendment to IAS 41 *Agriculture*. The amendment would remove the requirement for entities to exclude cash flows for taxation when measuring the fair value of biological assets using a present value technique. Pending publication of exposure draft.
IFRIC 14 – Availability of a Refund (Amendments)	Effective date not yet agreed	To be advised	Proposal to amend IFRIC 14 to clarify the accounting when other parties have rights to make particular decisions about a company's defined benefit plan. Pending further board discussion.
Disclosure Initiative – Targeted Standards-level Review of Disclosures	Effective date not yet agreed	To be advised	Proposal for new guidance for the IASB Board to use when developing and drafting disclosure requirements; and testing the guidance for the Board by applying it to the disclosure requirements in IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement. The Board will continue its discussions throughout 2018 with a view to publishing an Exposure Draft of amendments to the disclosure requirements of the selected IFRS Standard(s).
2019 Comprehensive Review of the IFRS for SMEs Standard	Effective date not yet agreed	To be advised	The IASB is developing a Request for Information focused on obtaining views on whether and, if so, how to update the IFRS for SMEs Standard for IFRS Standards and amendments not currently incorporated into the IFRS for SMEs Standard.