



# HM TREASURY

## Financial Reporting Advisory Board Paper

### Minutes of the 135<sup>th</sup> FRAB meeting and matters arising

<b>Issue:</b>	For information - minutes of the last 135 <sup>th</sup> FRAB meeting held on 4 <sup>th</sup> April 2019 and matters arising.
<b>Impact on guidance:</b>	N/A
<b>IAS/IFRS adaptation?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Impact on budgets/Estimates?</b>	N/A
<b>Recommendation:</b>	The Board has already approved the minutes of the 135 <sup>th</sup> meeting by email but to note the matters arising.
<b>Timing:</b>	N/A

#### Detail

1. To note the minutes of the 135<sup>th</sup> FRAB meeting which were circulated and approved by email after the meeting (Annex A).
2. Matters arising are noted below:

## Matters arising

Paragraph	Issue	Action
13	To provide the Board with more detail of the scope of the review of the FReM and an update on progress.	See agenda item 13
14	The Board to discuss the role of FRAB going forward in the agenda set by the Government Financial Reporting review, without losing sight of the prime purpose of FRAB.	Open – carry forward to November 2019
25	To keep the Board updated on the relevant authorities working group discussions and to review the governance of the Sub Group in 12 months' time. This to be a standing item on the agenda.	See agenda item 12
32	The Board to be informed of potential changes and updates to endorsement process and implement of IFRS 17	See agenda item 07
38	Minor amendments to the FRAB report to be made offline and the report to be recirculated and presented to board members	See agenda item 02
41	To add a standing item on the agenda for a Health sector update, as a relevant authority.	See agenda item 08
42	Volunteers from the Board to agree the GAM outside of the Board meeting	Closed

# Annex A

## Minutes of 135<sup>th</sup> FRAB Meeting Held on Thursday the 4<sup>th</sup> of April 2019 at NHS Improvement

**Present:**

Ian Mackintosh (Chair)	Ian Ratcliffe
Anthony Appleton	Ian Webber
Bob Richards	Joseph McLachlan
David Aldous	Karl Havers
Fiona Kordiak	Larry Honeysett
Gareth Caller	Pam Beadman
Gareth Davies	Stuart Stevenson
Gawain Evans	Vicky Rock
Iain King	

**On the Phone:** Andrea Pryde, Aileen Wright

**Secretariat:** Vikki Lewis

**Invitees:** Lynn Pamment

**Apologies:** Andrew Buchanan, Chris Young, Craig Mackinlay MP, Richard Barker

**Agenda Items (in order tabled):**

1. Minutes and matters arising
2. IFRS 16 Leases – implementation plan update
3. Government Financial Reporting Review – update
4. IASB presentation
5. CIPFA/LASAAC Local Authority Code development and local government update
6. Relevant Authorities Working Group
7. FRC update
8. NAO update
9. IFRS17 Insurance Contracts – Implementation update
10. IFRIC update
11. IFRS narrow scope amendments and annual improvement cycle - update
12. FRAB 2018-19 Annual Report
13. FRAB forward work programme
14. AOB

**Item 1: Minutes and matters arising:**

1. The Chair welcomed members to the meeting. The Board discussed the minutes and matters arising from the previous meeting, FRAB 134 held on 22 November 2018, which were circulated and agreed out of meeting. No further comments were noted.
2. The Chair explained this would be his last meeting as he would be stepping down as Chair of the Board, as announced at the November 2018 FRAB meeting. The Chair thanked the Board members for their support and contribution during his tenure as Chair.
3. The Treasury and other members of the Board thanked the Chair for his services to the Board and contribution to the improvements to public sector financial reporting.
4. Lynn Pamment was welcomed to the meeting after her appointment as the new Board Chair from May 2019 following an open advertisement campaign.

**Item 2: IFRS 16 Leases – implementation plan updates**

4. The Treasury provided an update on the two areas the Board had requested further clarification on at the November 2018 meeting. The first was on the subsequent measurement for right of use assets which the Treasury had been working on alongside CIPFA/LASAAC. The Treasury proposed that subsequent measurement for these assets should follow the same methodology as owned property. However, cost could be used as a proxy for fair value, if it would be more practical to do so. An adaptation to the definition of a lease was agreed, to include nil consideration arrangements.
5. The Treasury also gave the Board an overview of a new methodology that would be applied to discounting lease liabilities. This new methodology would require only a single discount rate to be applied when discounting a lease liability, rather than a short, medium or long term as had been suggested previously. The Board agreed these proposals, but requested clarification that the default discount rate would be the rate implicit in the lease, and that the Treasury rate should only be used where the implicit rate is not readily available.
6. The Treasury also provided an update on the proposed budgeting framework for leases. It will require a central adjustment to National Accounts for non-property leases from an IFRS 16 to IAS 17 basis as a result of an indicative decision by the ONS that non-property leases would follow IAS 17 in National Accounts, while property leases would follow IFRS 16.
7. The Board sought clarification on whether the ONS decision would mean dual reporting would be required. The Board also queried how the ONS decision would impact local government and whether budgeting guidance could be sent to members on request.
8. The Treasury and the ONS confirmed departments would not be required to dual report as the fiscal adjustments would be managed centrally for central government. However, further discussion was ongoing to agree the next steps for local government. Further detail was also provided to support the ONS decision in relation to non-property leases following IAS 17.
9. The Board welcomed the Treasury's intention to publish the budgeting guidance for IFRS 16 in the summer, and at the earliest possible opportunity.

**Item 3: Government Financial Reporting Review – Update**

10. The Board received an update from the Treasury on the government financial reporting review, including confirmation that the final report had been published on the gov.uk

website. The Treasury thanked the Board members for their assistance in the production of the report, particularly those who were a member of the review's Advisory Board.

11. The Board showed appreciation for the high-quality review, and was pleased to note the Treasury's ongoing commitment to embracing the two principles of continuous improvement and representing the interest of the user.
12. The Board discussed the concept of the thematic reviews and expressed an interest in being kept up to date in the review process. The Board also asked the Treasury for a brief overview on the zero-based review of the FReM and noted the importance of the inclusion of devolved administrations and other relevant authorities in the review.
13. The Treasury set out the preliminary thoughts as to the structure of the zero-based review of the FReM and agreed to provide the Board with a scope of this review at the June FRAB meeting.
14. The Board agreed to discuss the role of FRAB going forward in the agenda set by the review, without losing sight of the prime purpose of FRAB.

#### **Item 4: IASB presentation**

15. The Board welcomed Andrea Pryde's very interesting presentation providing an overview of the IASB's future workplan, with detail provided on four key areas of work: standard setting, implementation and maintenance, research and other areas such as post implementation reviews, taxonomy and the technology landscape.
16. The update included information on upcoming consultations, such as the IASB's planned consultation at the end of 2019 on accounting in financial institutions, and upcoming post implementation reviews of IFRS10, 11, 12 and IFRS5. The IASB is also focusing on how financial statements can be explained more clearly and thoroughly.
17. The Board discussed the underlying principles and benefits of post implementation reviews and the difference in scope between those planned by the IASB following the implementation of new standards, and the review of IFRS 9 and IFRS15 planned by the Treasury in 2019.

#### **Item 5: CIPFA/LASAAC Local authority code development and local government update**

17. CIPFA/LASAAC confirmed to the Board they are content with the proposals agreed earlier in the meeting on IFRS 16. CIPFA/LASAAC set out their intention to form a new working group to discuss the treatment for concessional arrangements.

18. CIPFA/LASAAC also highlighted that they had received a request for the early adoption of IFRS 16 to be permitted. CIPFA/LASAAC and the Board discussed the merits of allowing this early adoption, including whether they meet the strict criteria approved in the November meeting, and the potential impact on the Whole of Government Accounts.
19. CIPFA/LASAAC also gave the Board an overview of their strategic plan going forward, including future Code developments and consultations. The Board encouraged the joint working of CIPFA/LASAAC, the Treasury and other relevant authorities to ensure where possible, consistency across any changes.

#### **Item 6: Relevant Authorities Working Group**

20. The Treasury (as the Chair of the working group) gave the Board an update on the newly formed Relevant Authority working group. This included an overview of the purpose behind the group, the Memorandum of Understanding, the minutes from the first meeting and a forward look agenda.
21. The Board considered the Memorandum of Understanding, and raised points of clarification including the time period of public consultations to allow stakeholders to fully engage. The Relevant Authorities stressed that the current inclusion of a minimum period of 4 weeks would be used in extreme circumstances only but would seek to have a minimum of 8 weeks.
22. The Board discussed the proposed governance arrangements of the working group, as the suggestion was for FRAB to have oversight of the group. The working group confirmed it was a forum for relevant authorities to discuss important topics outside of FRAB, but would not have any decision-making ability.
23. After much discussion, the Board agreed that the working group would be a welcome forum, but should not be a subset of FRAB. The Board requested that the Memorandum of Understanding be updated to reflect this.
24. The Board highlighted the potential for conflict between the relevant authority members who were on both the Board and part of the working group but agreed that any potential conflicts of interest would be raised and explained.
25. The Board noted their appreciation for receiving the minutes and forward plan for the working group that had taken place in February and requested that this information continued to be provided to the Board. The Board also agreed to review the governance arrangements of the working group in 12 months' time.

### **Item 7: FRC update**

26. The Board welcomed an update on recent developments at the FRC from Anthony Appleton. This included an update on ongoing work, for example the publication of the Guidance on the Strategic Report and proposals for a new definition of “Stewardship”.
27. The update also included a discussion on the implications of the Kingman report on the FRC, including details of the intention to replace the FRC with a new entity, the Audit, Reporting and Governance Authority.

### **Item 8: NAO**

28. The NAO provided an update on developments within audit since the last FRAB meeting, including the local auditor report and PAC’s interest in this. The NAO also kindly provided an overview of the new code of practice project, which is out for consultation, and will apply from 2021.
29. The NAO gave an update on the 2018/19 audit process and highlighted some key issues, for example, the risk to the accounts publication timetable due to the uncertainty around Brexit. The NAO also confirmed the processes that have been put in place to ensure the transition to the new C&AG would not impact certification timetable of 2018-19 annual reports and accounts.

### **Item 9: IFRS 17 Insurance Contracts – Implementation update**

30. The Treasury provided an update on the IFRS 17 implementation project and gave a summary of the first IFRS 17 technical working group meeting, including the feedback received from departments and the discussions around scope.
31. The Board discussed the similarities between IFRS 4 and IFRS 17, but questioned whether the removal of requirement for consideration would make a difference in scope between the two standards in the public sector context.
32. The Board agreed to closely monitor any potential changes in IFRS 17 that may come to light, and the endorsement process post Brexit.

### **Item 10: International Financial Reporting Interpretations Committee Update**

33. The Board received an update on the activities of IFRIC which had met on 5<sup>th</sup> and 6<sup>th</sup> March and had finalised eight agenda items. The update provided details of those items on the agenda that had a particular relevance for the public sector including. Credit enhancement in the measurement of expected credit losses (IFRS 9 *Financial Instruments*); Customer’s right to receive access to the supplier’s software hosted on the



cloud (IAS 38 *Intangible Assets*); and Curing of a credit impaired financial asset (IFRS 9 *Financial Instruments*).

34. The Board thanked Andrew Buchanan for providing an update to the Board and noted that much of the IFRIC discussions had focused on IFRS 9, (applicable to public sector financial reporting from 1<sup>st</sup> April 2018) and therefore similar questions to those discussed by IFRIC could arise within the public sector at this year-end, or within the next few years. The Board agreed to keep abreast of the issues going forward.
35. It was noted that the other agenda decisions which were finalised were:
- Application of the highly probable requirement when a specific derivative is designated as a hedging instrument (IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*)
  - Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 *Financial Instruments*)
  - Sale of output by a Joint Operator (IFRS 11 *Joint Arrangements*)
  - Liabilities in relation to a Joint Operator's interest in a Joint Operation (IFRS 11 *Joint Arrangements*)
  - Over time transfer of constructed good (IAS 23 *Borrowing Costs*)

#### **Item 11: IFRS narrow scope amendments and annual improvement cycle – update**

36. The Treasury presented a paper that detailed the IASBs narrow scope amendments to already adopted IFRS, resulting from the annual improvement cycle. The paper covered IFRS updates that were effective from the 2018-19 financial year, as well as updates planned for subsequent years. This followed on from the paper presented in June 2018 where it was agreed no changes were needed to existing accounting guidance within the FReM.
37. The Board agreed with the Treasury's analysis that the IFRS updates effective from the 2018-19 financial year were unlikely to have an impact that would require any amendments to existing public sector adaptations and interpretations. However, the Board reminded the relevant authorities that it was the responsibility of the accounts preparers to review these amendments and make changes where necessary.

#### **Item 12: FRAB 2018-19 annual report**

The Treasury gave an update on the 2018-19 FRAB draft report, requesting feedback from the Board as to the content and structure of the report. The Treasury highlighted there were still some placeholders in the report, as the outcome of the April meeting discussion is to be included in the 2018-19 FRAB report.

38. The Board agreed to aim to publish the report before the 2019 summer recess. The Board recommended some changes to the report, and offered to raise minor issues offline. The Board also discussed the implications of the government financial reporting review on this, and future, FRAB reports.

**Item 13: FRAB forward work programme**

39. The Board discussed the draft forward work programme, including whether any other items should be added to the agenda.
40. The Board agreed they would like an update of the FReM review in June and for the update from the relevant authority working group to be a standing agenda item.
41. The Board requested a health sector update to be added to the June meeting and regular updates provided thereafter. The suggestion was also raised whether the draft DHSC manual approval process could move to November from March.

**Item 14: AOB**

42. The Treasury asked for volunteers from the Board to review the DHSC manual (the GAM), and agreed to confirm with DHSC the absolute deadline for Board member review.
43. The Chair thanked the Board for their continuous hard work and wished the Board and the new Chair the very best going forward.