HM Treasury

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 2021-22 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 and interpretations 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 new misalignments.
Alignment with National Accounts	The changes will not impact on National Accounts, either as they already follow IFRS or there are 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:	There are no suggested amendments or interpretations to bring into effect in relation to the issues covered in this paper.

DETAIL

Amendments or interpretations issued and effective from 1 January 2021

1. Appendix 1 lists 3 amendments now effective, all of which have been EU or UK endorsed as appropriate. Phase 1 of the Interest Rate Benchmark Reform was reviewed by FRAB in June 2020 (FRAB 141 (10)) and no public sector amendments or interpretations were proposed then.

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

Amendments or interpretations from the 2018-20 Annual improvement cycle

3. Appendix 2 lists 3 sets of amendments which the IASB is reviewing as part of its annual improvement cycle. The final amendments for these still pending and, at the time of writing, have not been published.

4. The appendix summarises the amendments and HM Treasury will review what impact these amendments, interpretations or disclosure initiatives will have once the final amendments have been issued. 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.

Amendments or interpretations issued but not yet effective

5. Appendix 3 lists 6 projects where amendments, interpretations or disclosure initiatives are in development. HM Treasury will review what impact these amendments, interpretations or disclosure initiatives will have as they are issued.

HM Treasury

25th March 2021

Appendix 1: Amendments or interpretations issued and effective from 1 January 2021

Standard (amendment/ new)	Effective date – beginning on or after (EU adopted or UK adopted as relevant)	FReM Application?	Summary	Central Government Impact
Covid-19-Related Rent Concessions Amendment to IFRS 16	01 June 2020 (Endorsed by the EU 09/10/20)	2021-22	Covid-19-Related Rent Concessions, which amends IFRS 16, is effective from 1 June 2020 with earlier application permitted. The amendment permits lessees, as a practical expedient, not to assess whether rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.	Minimal – there are only 3 ‘early adopter’ departments with an additional three/four adopting IFRS 16 for 20/21 none of which will require the use of the amendment.
Extension of the Temporary Exemption from Applying IFRS 9 Amendments to IFRS 4	01 January 2021 (Endorsed by the EU 15/12/20)	2021-22	Extension of the Temporary Exemption from Applying IFRS 9, which amends IFRS 4, extends the temporary exemption from applying IFRS 9 by two years. It will expire for annual reporting periods beginning on or after 1 January 2023.	None

Standard (amendment/ new)	Effective date – beginning on or after (EU adopted or UK adopted as relevant)	FReM Application?	Summary	Central Government Impact
Interest Rate Benchmark Reform — Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01 January 2021 (Endorsed by the SoS for BEIS on 5th January 2021)	2021-22	Interest Rate Benchmark Reform - Phase 2 (Phase 2 amendments) was issued in August 2020 and amends IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The objectives of the Phase 2 amendments are to: • support companies in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the reform; and • assist companies in providing useful information to users of financial statements.	Minimal – whilst there are some central government entities that use hedge accounting for their reserves and investments, this is not common across all central government entities. As the FReM does not give any specifics on hedge accounting, no amendments to the FReM are deemed necessary. No public sector adaptations or interpretations are proposed.

Appendix 2: Amendments or interpretations from the 2018-20 Annual improvement cycle

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
IFRS 1 – First time adoption of IFRS: Subsidiary as a first-time adopter Annual improvement cycle	01 January 2022 (pending UK endorsement)	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). An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update were published on 14th May 2020 as part of the Annual Improvements to IFRS Standards 2018–2020.
IFRS 9 – Financial Instruments: Fees in the '10 per cent' test for derecognition Annual improvement cycle	01 January 2022 (pending UK endorsement)	To be advised	Proposal 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. An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update be were published on 14th May 2020.

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
IAS 41 – Agriculture: Taxation in Fair value measurement Annual improvement cycle	01 January 2022 (pending UK endorsement)	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. An exposure draft of proposed amendments was published on 21st May 2019 with comments requested by 20th August 2019. The final amendments on this update were published on 14th May 2020.

Appendix 3: Amendments or interpretations issued but not yet effective

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
Sale or Contribution of Assets Amendments to IFRS 10 and IAS 28	Postponed indefinitely	To be advised	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which amends IFRS 10 and IAS 28, was issued in September 2014. The amendments address the conflict between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures when accounting for the sale or contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary). In December 2015 the Board deferred the effective date of this amendment indefinitely.
IFRS 17 Insurance Contracts (Amendments to this Standard were issued in June 2020)	1 January 2023 (pending UK endorsement)	To be advised	IFRS 17 Insurance Contracts applies to: insurance contracts, including reinsurance contracts, issued by an entity with specified exceptions; reinsurance contracts held by an entity; and investment contracts with discretionary participation features issued by an entity that issues insurance contracts. An insurance contract is defined as ‘a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder’. In the statement of financial position, an entity is required to measure profitable insurance contracts at the risk-adjusted present value of the future cash flows plus unearned profit for services to be provided under the contract. IFRS 17 requires an entity to recognise profit from a group of insurance contracts over the period the entity provides services, and as the entity is released from risk. If a group of contracts is or becomes loss-making, the entity is required to recognise the loss immediately. The Standard also requires insurance revenue, insurance service expenses, and insurance finance income or expenses to be presented separately.

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
			Since the Board issued IFRS 17 in May 2017, it has been carrying out activities to support entities and monitor their progress in implementing the Standard. These activities helped the Board to understand the concerns and challenges that some entities identified while implementing the Standard. The Board considered these concerns and challenges and decided to amend IFRS 17. The objective of the amendments is to assist entities implementing the Standard, while not unduly disrupting implementation or diminishing the usefulness of the information provided by applying IFRS 17. IFRS 17, as amended in June 2020, is effective for annual reporting periods beginning on or after 1 January 2023.
Classification of Liabilities as Current or Non-current Amendments to IAS 1 (In July 2020, the effective date of this amendment was deferred to 1 January 2023)	1 January 2023 (pending UK endorsement)	To be advised	Classification of Liabilities as Current or Non-current clarifies a criterion in IAS 1 Presentation of Financial Statements for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Classification of Liabilities as Current or Non-current—Deferral of Effective Date was issued in July 2020 and deferred the mandatory effective date of amendments to IAS 1 Classification of Liabilities as Current or Non-current to annual reporting periods beginning on or after 1 January 2023.
Reference to the Conceptual Framework Amendments to IFRS 3	1 January 2022 (pending UK endorsement)	To be advised	Reference to the Conceptual Framework updates a reference to the Conceptual Framework in IFRS 3 Business Combinations and makes further amendments to IFRS 3 to avoid unintended consequences of updating the reference.

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022 (pending UK endorsement)	To be advised	Onerous Contracts - Cost of Fulfilling a Contract amends IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
Property, Plant and equipment: Proceeds before Intended Use Amendments to IAS 16	1 January 2022 (pending UK endorsement)	To be advised	Property, Plant and Equipment: Proceeds before Intended Use amends IAS 16 Property, Plant and Equipment. The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.