FRAB 146 (15)
31 March 2022

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 2022-23 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 2022

1. Appendix 1 lists 3 amendments now effective, however they have yet to be formally adopted by the UK Endorsement Board (UKEB). These amendments were finalised and published before the creation of the UKEB and the UKEB is still in active endorsement consultation on them.

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 does 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 4 sets of amendments which were issued by the IASB as part of its annual improvement cycle. These improvements were finalised and published before the creation of the UKEB and the UKEB is still in active endorsement consultation on them.

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 endorsed by the UKEB. 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 1 project that was published by the IASB in January 2020. Originally effective for annual reporting periods beginning on or after 01 January 2022 it has been delayed until reporting periods beginning on or after 01 January 2023 due to the Covid-19 pandemic.

The UKEB has yet to begin its endorsement consultation and HM Treasury will review what impacts this amendment will have when it is issued.

HM Treasury

31st March 2022

Appendix 1: Amendments or interpretations issued and effective from 1 January 2022

Standard (amendment/ new)	Effective date – beginning on or after (EU adopted or UK adopted as relevant)	FReM Application?	Summary	Central Government Impact
Reference to the Conceptual Framework Amendments to IFRS 3	1 January 2022 (pending UK endorsement)	To be applied once endorsed	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.	None
Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022 (pending UK endorsement)	To be applied once endorsed	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.	Minimal – should a central government entity's contracts fall within the scope of this amendment it shall apply the standard as written and no amendment to the FReM is deemed necessary. No public sector adaptations or interpretations are proposed.
Property, Plant and equipment: Proceeds before Intended Use	1 January 2022	To be applied once endorsed	Property, Plant and Equipment: Proceeds before Intended Use amends IAS 16 Property, Plant and Equipment.	Minimal – should a central government entity's actions fall within the scope of this amendment it shall apply the standard as

Standard (amendment/ new)	Effective date – beginning on or after (EU adopted or UK adopted as relevant)	FReM Application?	Summary	Central Government Impact
Amendments to IAS 16	(pending UK endorsement)		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.	written and no amendment to the FReM is 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 applied once endorsed	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 applied once endorsed	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 were published on 14th May 2020.

Standard (amendment/ new)	Effective date – beginning on or after (UK Adopted)	FReM Application?	Summary
IFRS 16 Leases– Lease incentives. Annual improvement cycle	01 January 2022 (pending UK endorsement)	To be applied once endorsed	The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
IAS 41 – Agriculture: Taxation in Fair value measurement Annual improvement cycle	01 January 2022 (pending UK endorsement)	To be applied once endorsed	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
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.