

# report

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**The purpose of this report is to inform CIPFA/LASAAC members of planned developments in financial reporting standards and other issues that the Board may need to consider in developing future editions of the Code of Practice on Local Authority Accounting.**

## **1 Introduction**

- 1.1 The first IFRS-based Code of Practice on Local Authority Accounting will be published in December 2009. This edition of the Code will apply to 2010/11.
- 1.2 The purpose of this report is to highlight the planned developments in financial reporting standards that the Board may need to consider in developing future editions of the Code. The report considers the plans for future financial reporting standards, and recently issued standards that have yet to come into effect, of the International Accounting Standards Board (IASB), the International Public Sector Accounting Standards Board (IPSASB) and, where no international standard exists, the UK Accounting Standards Board (ASB).
- 1.3 The report also considers other issues (such as changes to legislation) that may be relevant to the Board's future consideration of later editions of the Code.
- 1.4 In its discussions on financial reporting developments, CIPFA/LASAAC may wish to consider an approach which only implements the minimum changes in 2011/12 to provide local authorities with a stable platform for accounting until 2012/13, enabling the transition to IFRS to become embedded.

## **2 Developments in Financial Reporting Standards**

- 2.1 This section of the report considers the developments of each standards setting board separately. The IPSASB's 'rules of the road' mean that any financial reporting standard issued by the IASB is expected to be considered by the IPSASB within twelve months.

### *IASB Developments*

- 2.2 The following table provides details of standards recently issued by the IASB that have yet to be incorporated into the Code. It should be noted that the Code is

based on EU-adopted IFRS, and a delay between a standard coming into effect and its adoption by the European Union is possible; this will determine the point at which the standard will need to be considered by CIPFA/LASAAC for possible incorporation into the Code of Practice.

Standard	Date Issued	Expected Impact on Code
Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)	March 2009	Not expected to result in any changes to the Code.
Annual improvements to IFRS	April 2009	<p>An amendment to IFRS 8 only requires segment assets to be reported where they are reported to management. The Code already adopts this approach.</p> <p>An amendment to IAS 17 Leases clarifies the considerations to be taken into account when classifying leases of land. <b>The 2010/11 Code incorporates this as additional guidance, but it is recommended that the 2011/12 Code adopt the revised wording in IAS 17 in full.</b></p> <p>An amendment to the application guidance in IAS 39 notes that a prepayment option in a financial instrument that reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract is a closely related derivative (and need not be accounted for separately). The Code already adopts this approach in respect of PWLB loans.</p> <p>Further amendments are not expected to require changes to the text in the Code. These relate to: <i>share based payments; disclosures in respect of non-current assets held for sale; presentation of financial statements (classification of equity instruments); statement of cash flows; revenue; impairment of assets (goodwill); value of intangible assets acquired as part of a business combination; and financial instruments (business combinations and hedging)</i>. It is unlikely authorities will have transactions that are covered by these amendments; where they do, they should refer to the standards.</p>
IFRS 2 Share based payments	June 2009	Not expected to result in any changes to the Code.

IFRS 1 First time adoption of IFRS	July 2009	Covers extractive industries; not expected to result in any changes to the Code.
IFRS for SMEs	July 2009	Not relevant to the Code.

2.3 The following table provides details of the latest IASB work plan (issued in August 2009). The work plan includes plans for the review of existing standards as well as plans for the development of new standards.

Development	Planned Issue Date	Expected Impact on Code
Classification of rights issues	Q4 2009	Not expected to result in any changes to the Code.
Consolidation (replacement of IAS 27 and SIC 12)	Q4 2009	The main objectives of the project are to improve the definition of control and related application guidance so that a control model can be applied to all entities, and to improve the disclosure requirements about consolidated and unconsolidated entities. <b>It is recommended that consideration is given to incorporating the requirements in the 2011/12 or 2012/13 Code (in parallel with joint ventures) depending on the date of EU adoption.</b>
Credit risk in liability measurement	Not known.	A discussion paper considered whether credit risk should be used in the measurement of liabilities. It is not clear if this will result in a standard, and so there are no implications for the Code in the medium term.
Derecognition (financial instruments; amendment of IAS 39 and IFRS 7)	H2 2010	<b>It is recommended that consideration is given to incorporating the requirements in the 2012/13 Code as the expected issue date of the standard may be too late for inclusion in the 2011/12 Code.</b>
Fair Value Measurement	Q2 2010	The exposure draft proposes amending the definition of fair value in all standards with a fair value IFRS. Fair value would be based on exit value. <b>It is recommended that CIPFA/LASAAC consider this development alongside the IPSASB's conceptual framework; any changes are unlikely to be incorporated into the Code until at least 2012/13.</b>
Classification and	Q4 2009	The exposure draft proposes simplifying

measurement of financial instruments (replacement of IAS 39)		the classification and measurement of financial instruments. The proposals are not expected to be mandatory before January 2012; under the memorandum of understanding, they would need to be considered for the 2012/13 Code, although earlier adoption would be permitted. <b>It is recommended that consideration is given to incorporating the proposed treatment in the 2011/12 or 2012/13 Code, bearing in mind that the IASB is proposing to replace IAS 39 in three phases.</b>
Impairment of financial instruments (replacement of IAS 39)	Q2 2010	<b>It is recommended that consideration is given to incorporating the requirements in the 2012/13 Code as the expected issue date of the standard may be too late for inclusion in the 2011/12 Code.</b>
Hedge Accounting (replacement of IAS 39)	Q2 2010	The Code requires authorities that apply hedge accounting to refer to the standards, and it is therefore expected that there will be limited changes required in the Code.
Financial Statement Presentation	H1 2011	An exposure draft will be issued in the second quarter of 2010. The potential impact on the Code is therefore unknown. <b>It is recommended that consideration is given to amending the Code if required in either the 2012/13 or 2013/14 Code, depending on the date of the IFRS.</b>
Financial Instruments with Characteristics of Equity	H1 2011	Not expected to result in any changes to the Code.
Income Taxes (replacement of IAS 12)	H2 2010	Not expected to result in any changes to the Code.
Joint Ventures (replacement for IAS 31)	Q4 2009	The exposure draft proposals would prohibit proportional consolidation, and the Code would therefore require amendment. <b>It is recommended that consideration is given to incorporating the requirements in the 2011/12 or 2012/13 Code (in parallel with consolidation) depending on the date of EU adoption.</b>
Leases	H1 2011	A discussion paper proposed that leases be recognised on a 'right of use asset' basis;

		<p>this would be a fundamental change in accounting for leases, and would have implications for capital regulations. <b>It is recommended that consideration is given to amending the Code if required in either the 2012/13 or 2013/14 Code, depending on the date of the IFRS, and any regulatory considerations.</b></p>
Post employment benefits – Discount Rate	Q4 2009	<p><b>It is recommended that consideration is given to incorporating the requirements in the 2011/12 Code (assuming EU adoption is not delayed).</b></p>
Post employment benefits – recognition and presentation	H1 2011	<p>The exposure draft has yet to be issued, so the impact on the Code is not yet known. <b>It is recommended that consideration is given to amending the Code if required in either the 2012/13 or 2013/14 Code, depending on the date of the IFRS, and any regulatory considerations.</b></p>
Revenue recognition (replacement for IAS 11 and IAS 18)	H1 2011	<p>The exposure draft has yet to be issued, so the impact on the Code is not yet known. <b>It is recommended that consideration is given to amending the Code if required in either the 2012/13 or 2013/14 Code, depending on the date of the IFRS.</b></p>
Annual improvements to IFRS	Q2 2010 and H1 2011	<p>The exposure draft proposes the following changes in 2010:</p> <p>A sale plan resulting in loss of significant influence of an associate or loss of joint control of a jointly controlled entity would result in the interest being classed as held for sale.</p> <p>Disclosure requirements under IFRS 7 are amended.</p> <p>Terminology in relation to accounting policies is amended to reflect the conceptual framework. Changes to the Code, if required, are expected to be minor.</p> <p>Removal of the requirement to transfer investment properties being developed for sale to inventories.</p> <p>Other changes that are not expected to</p>

		<p>result in changes to the Code cover: <i>clarification regarding the Statement of Changes in Equity (already adopted in the Code); first time adoption; business combinations; interim financial reporting; impairment of investments in subsidiaries, associates and joint ventures (the Code refers authorities to the standards); investments in associates designates as at fair value through profit and loss and customer loyalty programmes.</i></p> <p><b>It is recommended that consideration is given to incorporating the requirements in the 2011/12 Code (assuming EU adoption is not delayed).</b></p> <p><b>Changes in 2011 are not known at this stage, but it is recommended that consideration is given to incorporating the requirements in the 2012/13 Code (assuming EU adoption is not delayed).</b></p>
Discontinued operations	Q4 2009	<p>The exposure draft proposes revising the definition of discontinued operations and requiring additional disclosure related to components of an entity that have been (or will be) disposed of. <b>It is recommended that consideration is given to incorporating the requirements in the 2011/12 Code (assuming EU adoption is not delayed).</b></p>
Emission trading schemes	H1 2011	<p>The exposure draft has yet to be issued, so the impact on the Code is not yet known. <b>It is recommended that consideration is given to amending the Code if required in either the 2012/13 or 2013/14 Code, depending on the date of the IFRS.</b></p>
Prepayments of a Minimum Funding Requirement	Q4 2009	<p>Not expected to result in any changes to the Code, as the Code refers authorities to the standard.</p>
Insurance Contracts (replacement for IFRS 4)	H1 2011	<p>Not expected to result in any changes to the Code.</p>
Liabilities	Q4 2009?	<p>The project might result in the removal of contingent liabilities. The work plan shows either a revised standard or a new exposure draft being issued in the fourth quarter of 2009. <b>If a new standard is</b></p>

		issued, it is recommended that consideration is given to incorporating the requirements in the 2011/12 Code (assuming EU adoption is not delayed).
Management Commentary	H2 2010 (Guidance rather than a standard)	It is recommended that consideration is given to amending the Code requirements on the explanatory foreword in either the 2012/13 or 2013/14 Code, depending on the date of the guidance. Some aspects may refer to reporting outside the financial statements, and these will need to be considered as part of further work on the Telling the Whole Story project.
Rate regulated activities	Q2 2010	It is not clear that any local authority activities will be classified as rate regulated activities. It is recommended that a study is carried out to identify whether there are any rate regulated activities in local authorities, and that if there are, consideration is given to incorporating the requirements in the 2012/13 Code.
Related party disclosures	Q4 2009	The exposure draft proposes exemptions in relation to state controlled entities. It is recommended that consideration is given to incorporating the requirements in the 2011/12 Code (assuming EU adoption is not delayed).
Conceptual Framework	Various phases	The impact may be significant, as the framework will inform the development of standards. It is recommended that the conceptual framework is considered when drafting all future editions of the Code.

#### *IPSASB Developments*

- 2.4 All issued IPSASs were considered in the development of the 2010/11 Code.
- 2.5 The following table provides details of the latest position regarding the IPSASB project plan. This includes plans for the review of existing standards as well as plans for the development of new standards.

<b>Development</b>	<b>Planned Issue Date</b>	<b>Expected Impact on Code</b>
Annual Improvements to IPSAS	December 2009	Consistent with IFRS and therefore not expected to result in any changes to the Code.

Entity Combinations	December 2009	Consistent with IFRS and therefore not expected to result in any changes to the Code.
Financial Instruments	December 2009	Consistent with IFRS and therefore not expected to result in any changes to the Code.
Intangible Assets	December 2009	Consistent with IFRS and therefore not expected to result in any changes to the Code.
Service Concession Arrangements	Exposure Draft December 2009	Expected to follow a similar approach to the Code in mirroring IFRIC 12. However, the SORP (and the FReM) are silent on a number of issues (such as third party payments, e.g. toll bridges) which may be covered in Exposure Draft. <b>It is recommended that consideration is given to incorporating the proposed treatment in the 2011/12 or 2012/13 Code, depending on the date of the IPSAS.</b>
Agriculture	During 2010?	Current draft is consistent with IFRS and therefore not expected to result in any changes to the Code.
Public Sector Conceptual Framework	Not yet determined	<b>The impact may be significant as it will inform the basis of measuring assets and liabilities. It is recommended that the framework is considered alongside the IASB's fair value developments; any changes are likely to be incorporated into the 2012/13 Code.</b>
Social Benefits	Not yet determined	Now being considered as part of the conceptual framework.
Borrowing Costs	Not yet determined	Now being considered as part of the conceptual framework.
Long-Term Fiscal Sustainability	Consultation paper by December 2009	No direct impact on the Code.
Heritage Assets	Project inactive at present	No impact on the Code unless the project is reactivated.

#### *ASB Developments*

- 2.4 The following table provides details of standards recently issued by the ASB that have yet to be incorporated into the Code.

Standard	Date Issued	Expected Impact on Code
FRS 30 Heritage Assets	Effective 1 April 2010	<b>It is recommended that the 2011/12 Code incorporates additional disclosures in respect of this standard.</b> The standard was included in the 2010/11 consultation; the responses were generally supportive, but noted that in some cases the requirements could be onerous. The effective date of the standard was after the cut-off date in the Memorandum of Understanding, and FRAB therefore gave a derogation from implementing the standard during 2010/11, on the understanding it would be incorporated into the Code in 2011/12. There is no international standard on Heritage Assets, and FRS 30 is within the hierarchy.
Updates to reflect changes to IFRS and changes to company law.	May 2009 – August 2009	Not expected to result in any changes to the Code.

- 2.5 The following table provides details of the latest position regarding the ASB project plan. This includes plans for the review of existing standards as well as plans for the development of new standards.

Development	Planned Issue Date	Expected Impact on Code
Amendments to reflect IFRS	June 2009	Not expected to result in any changes to the Code.
Policy proposal: the future of UK GAAP	August 2008	Not expected to result in any changes to the Code.

### 3 Other Developments

- 3.1 Other developments that the Board may need to consider when developing future editions of the Code arise from expected legislative requirements, the development of other Codes of Practice by CIPFA and guidance issued by other bodies. The following tables provide details of expected developments in these areas, and the expected impact on the Code of Practice on Local Authority Accounting.

#### *Legislation*

Development	Expected Dates	Expected Impact on Code
Accounts and Audit Regulations (England and Wales)	By 31 March 2010	<b>Amended remuneration disclosures are anticipated, which will need to be incorporated into the Code</b>

- amendments		<b>Amendments to the authorised for issue arrangements are possible, which will need to be incorporated into the Code</b>
Arrangements to mitigate the impact of IFRS (all jurisdictions)	By 31 March 2010	<b>A bulletin providing details of the arrangements and appropriate accounting arrangements will be required</b>  <b>Future editions of the Code will need to reflect the arrangements</b>
Carbon Reduction Commitment (CRC)	In force	<b>The CRC scheme will become a 'cap and trade' scheme in 2011/12. The existing provisions within the Code will cover the scheme, but it is recommended that the wording of the Code is amended to make specific reference to the scheme.</b>
Amendments to Scottish Police and Fire Pension Schemes	2010/11 or 2011/12 (consultation yet to be issued)	<b>If any revised regulations will apply to 2010/11, it is recommended these are included in a bulletin providing details of IFRS mitigation arrangements. If any implementation will be in 2011/12, it is recommended the 2011/12 Code is amended to cover the revised regulations.</b>

*Other Codes of Practice and Other Guidance*

<b>Development</b>	<b>Expected Dates</b>	<b>Expected Impact on Code</b>
Statement on the Role of the Chief Financial Officer	Issued June 2009	The statement includes recommendations for governance arrangements (on a 'comply or explain' basis that will need to be considered when developing the Code section on the statement of responsibilities.
Financial Reporting Manual	December 2009 for the 2010/11 edition	<b>The Financial Reporting Manual includes more detailed requirements than the Code in respect of the management commentary (the explanatory foreword in the Code) and the statement of responsibilities. It is recommended that this guidance is considered alongside that in the Statement on the Role of the Chief Financial Officer and the IASB guidance on the management commentary (when issued) to further develop the Code sections on the</b>

		<b>explanatory foreword and the statement of responsibilities. Some information may be more appropriately provided outside the statement of accounts, and will need to be considered for stakeholder reporting under the Telling the Whole Story project.</b>
Transport Infrastructure Assets (CIPFA)	February 2010	Considered elsewhere on the agenda
Prudential Code (CIPFA)	December 2009	Code has been redrafted to be compliant with the Accounting Code
Treasury Management Code of Practice (CIPFA)	December 2009	Not expected to impact on Accounting Code
Sustainability Reporting Guidance (HM Treasury)	December 2009	Considered elsewhere on the agenda

### **Recommendation**

**CIPFA/LASAAC is asked to:**

- 1) Note the developments that are taking place.**
- 2) Consider how the developments detailed above should be taken into account in future editions of the accounting Code.**