CHAPTER SEVEN
Financial instruments

7.1 INTRODUCTION, SCOPE, RECOGNITION AND INITIAL MEASUREMENT, HEDGE ACCOUNTING, DERIVATIVES AND EMBEDDED DERIVATIVES AND DEFINITIONS

7.1.8 Definitions

7.1.8.1 The following terms are used in this Code with the meanings specified:

A **financial asset** is any asset that is:

a) cash

b) an equity instrument of another entity

c) a contractual right:

   i) to receive cash or another financial asset from another entity, or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the authority

d) a contract that will or may be settled in the entity's own equity instruments and is:

   i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or

   ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments.

A **financial liability** is any liability that is:

a) a contractual obligation:

   i) to deliver cash or another financial asset to another entity, or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the authority

b) a contract that will or may be settled in the entity's own equity instruments and is:

i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or

ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note 1: in practice b) is not applicable to local authorities as they do not issue equity instruments.

Note 2: The *Annual Improvements to IFRSs 2010 – 2012 Cycle* added:

"It is contingent consideration of an acquirer in a business combination to which IFRS 3 *Business Combinations* applies." to the conditions for a financial asset or financial liability at fair value through profit or loss

CHAPTER EIGHT
Liabilities

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8.2.1 Introduction

8.2.1.1 Authorities shall account for provisions, contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, IFRIC 5 *Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, except where adaptations to fit the public sector are detailed in the Code.

8.2.1.2 IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* is based on IAS 37, and provides additional guidance for public sector bodies.

8.2.1.3 This section of the Code does not cover provisions, contingent liabilities and contingent assets in relation to:

- those provisions and contingent liabilities arising from social benefits provided by an authority for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits (other than through the normal accruals process)
- financial instruments (including measurement of financial guarantees after initial measurement) that are within the scope of chapter seven
- those resulting from executory contracts, other than where the contract is onerous subject to other provisions of this paragraph, and
- where another section of the Code deals with a specific type of provision, contingent liability or contingent asset, instead an authority applies that section of the Code instead of this section, for example; construction contracts (section 5.2), income taxes (Appendix A, paragraph A.1.2), leases (section 4.2), employee benefits (chapter six), insurance contracts (Appendix A, paragraph A.1.7) and contingent consideration of an acquirer in a business combination (see IFRS 3 Business Combinations).

8.2.3 Statutory Accounting Requirements[1]

8.2.3.1 In England and Wales, regulations and in Scotland statutory guidance (see part 2 of Appendix B for the legislative basis) permit an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account. In Scotland, Statutory Guidance in Scottish Government Finance Circular 4/2015 also allows deferral of serverance pay.

8.2.3.2 Where an authority elects to apply the regulation, the difference between the amount of expenditure included in Surplus or Deficit on the Provision of Services in each year and the amount charged under the regulations shall be debited to the Unequal Pay Back Pay Account, with a corresponding credit to the appropriate revenue account.

8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the Unequal Pay Back Pay Account, with a corresponding debit to the appropriate revenue account. In Scotland the account shall be the Equal pay provision statutory adjustment account and for severance a Severance provision statutory adjustment account.

8.2.3.4 There are no equivalent provisions in ~~Scotland and~~ Northern Ireland; authorities in ~~those countries~~Northern Ireland shall account for any provisions in relation to back

[1] ED Footnote only this minor amendment follows the requirement for new statutory provisions for equal pay and severance.

pay arising out of unequal pay claims in accordance with the Code.

APPENDIX E

Accounting for schools in local authorities in England and Wales

E.1.2 CIPFA/LASAAC is of the view that, based on the indicators of control identified under the requirements of the Code's adoption of IFRS 10, the balance of control lies with local authorities for all maintained schools. The recognition of non-current assets used by schools shall be determined in accordance with the definition of an asset in paragraph 2.1.2.23 and with the relevant standards adopted by chapter four Non-current Assets of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's Balance Sheet if they meet the appropriate recognition criteria (see chapter four) either for the local authority or for a school[2] within the local authority area.

2 Where the school is an entity in accordance with paragraph E1.1.