The 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom

Invitation to Comment

the people
in public finance

Invitation to Comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. Under the oversight of the Financial Reporting Advisory Board, CIPFA/LASAAC is in a position to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

3. The edition of the Code that is applicable for a financial year is based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2018/19 Code, this means that European Union (EU) adopted accounting standards with an effective date of 1 January 2018 or earlier will need to be taken into account.

4. This Invitation to Comment (ITC) sets out CIPFA/LASAAC's proposals for developing the new edition of the Code (the 2018/19 Code) to apply to accounting periods commencing on or after 1 April 2018 (Section B of this ITC). As there are a number of complex issues covered in this ITC it also contains an Executive Summary (Section A) which highlights the most significant issues which interested parties will need to consider.

5. The proposed developments for the 2018/19 Code are:

   (a) IFRS 9 *Financial Instruments*
   (b) IFRS 15 *Revenue from Contracts with Customers*
   (c) narrow scope amendments to International Financial Reporting Standards, and
   (d) legislative and policy developments.

6. This ITC also includes a commentary on the proposed approach to adoption of IFRS 16 *Leases*, the work of the CIPFA/LASAAC sub group on IFRS 16 *Leases* and the timetable for the consultation on the adoption of the standard in the Code in an Appendix to the ITC.

The Consultation Process

7. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC also welcomes responses to individual questions or areas if these are of specific interest to an interested party and welcomes comments on any aspect of the draft 2018/19 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.

8. Responses to this Invitation to Comment will be regarded as on the public record and are required to be published on the CIPFA website unless confidentiality is specifically requested on the response form. If you require your response to be treated as confidential please indicate this clearly on the response itself. Copies of

all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.

9. A copy of the Exposure Drafts of the 2018/19 Code in PDF format can be downloaded from the CIPFA website.

10. To assist interested parties in responding to the consultation, a response form (in Word format) is attached. We would be grateful if respondents to the consultation could use this form as this will speed up the analysis.

11. Responses are required by **6 October 2017** and may be sent to:

The Secretary

CIPFA/LASAAC Local Authority Accounting Code Board

Standards and Financial Reporting Faculty

CIPFA

77 Mansell Street

London

E1 8AN

Email: code.responses@cipfa.org

(For ease of handling, emailed responses using the Word document form provided are preferred.)

SECTION A – EXECUTIVE SUMMARY

IFRS 9 *Financial Instruments*

12. IFRS 9 *Financial Instruments* was issued by the International Accounting Standards Board (IASB) in July 2014 with that version superseding all previous versions and replacing IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has an effective date of 1 January 2018 so it will formally apply to the 2018/19 Code.

13. IFRS 9 includes:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed

- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39, and

- new provisions on hedge accounting.

14. Interested parties will be aware that CIPFA/LASAAC consulted on the approach to adoption of both IFRS 9 and IFRS 15 *Revenue from Contracts with Customers* in the consultation on the 2017/18 Code. As a result CIPFA/LASAAC issued a separate publication[1] to accompany the 2017/18 Code which sets out CIPFA/LASAAC's agreed position on the approach to adoption. However, this consultation focuses on two areas for consideration on the approach to adoption of IFRS 9. The areas relate to:

- whether certain housing rents debtors might meet the definition of purchased or originated credit-impaired financial assets, and

- CIPFA/LASAAC's decision not to mandate the use of the simplified approach to impairment for all trade receivables or contract assets that result from transactions within the scope of IFRS 15 and that contain a significant financing component and all lease receivables that result from transactions that are within the scope of IAS 17 and whether there are any consequences[2] as a result of this decision.

15. To ensure that accounts preparers have a clear understanding of the approach to adoption CIPFA/LASAAC is not reissuing the full set of amendments to IFRS 9.

IFRS 15 *Revenue from Contracts with Customers*

16. The IASB issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. In September 2015 the IASB deferred the effective date of IFRS 15 by one year to 1 January 2018. IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and their associated interpretations.

17. As with IFRS 9 CIPFA/LASAAC consulted on the approach to adoption of IFRS 15 in the Code in 2016 and has issued its agreed position in a separate publication[3] which accompanies the 2017/18 Code. Largely the amendments to the Code as

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1 *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19*

2 Note that CIPFA/LASAAC now understands that HM Treasury is mandating this approach in the Government's Financial Reporting Manual (the FReM) and the consultation paper outlines the costs and benefits of such an approach.

3 See footnote 1.

set out in the separate publication remain unchanged from the approach in the Exposure Drafts issued in the consultation on the 2017/18 Code.

18. CIPFA/LASAAC is, however, seeking views on its approach to the disclosure framework under IFRS 15. It is of the view that following its consultation last year that it will maintain the approach as set out in the separate publication ie not to include the specific disclosure requirements in the Code so that accounts preparers can refer directly to IFRS 15 when a disclosure requirement is a material transaction for a local authority. It is seeking interested parties' views on that approach.

19. Again to ensure that accounts preparers have a clear understanding of the approach to adoption CIPFA/LASAAC is not reissuing the full set of amendments to IFRS 15.

Narrow Scope Amendments

20. The proposals for change in the accounting requirements include a number of narrow scope amendments to International Financial Reporting Standards (IFRSs). These comprise clarifications of the provisions of individual standards including:

- IAS 7 *Statement of Cash Flows* (Disclosure Initiative) – these amendments brought forward from last year's Code consultation will require local authorities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities.

- The amendments to IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses) clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments may apply to local authorities' Group Accounts.

- An amendment to IAS 40 *Investment Property* (Transfers of Investment Property) provides clarification of paragraph 57 which deals with transfers to or from the investment property classification.

- *Annual Improvements to IFRS Standards 2014 – 2016 Cycle* – these improvements to IFRSs are outlined in Appendix B to the ITC.

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* provides requirements for which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

These amendments will be included in the 2018/19 Code subject to their EU adoption by 1 January 2018.

Telling the Story of Local Authority Financial Statements - Amendments to the Debtors and Creditors Disclosures

21. The Invitation to Comment sets out that CIPFA/LASAAC will remove the disclosure requirements analysing debtor and creditor balances across the public sector following the removal of the equivalent disclosures in the Government's Financial Reporting Manual (the FReM).

Legislative and Policy Initiatives

22. Changes to the Code as a result of legislative and policy issues include:

- The *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* for English Authorities – the change included in the Exposure Draft is to remove references to the ability to limit depreciation to the amount of the notional Major Repairs Allowance from paragraph 4.1.3.6 of the Code.

- Pooling of Local Government Pension Scheme investments in England and Wales – CIPFA/LASAAC is not proposing any changes as a result of this issue but is seeking interested parties' views.

IFRS 16 *Leases*

23. The International Accounting Standards Board (IASB) issued IFRS 16 *Leases* in January 2016. It supersedes IAS 17 *Leases* and its associated interpretations[4]. The effective date of IFRS 16 is for reporting periods commencing on or after 1 January 2019. Subject to CIPFA/LASAAC's decisions on adoption, the standard will apply to the 2019/20 Code.

24. CIPFA/LASAAC has created a sub group to consider the issues for adoption and the sub group will assist in the preparation of a separate consultation on the Code anticipated to be issued in December 2017 (timed to coincide with HM Treasury's consultation on changes to FReM for IFRS 16). Appendix C to this ITC provides a brief outline of IFRS 16 and includes initial issues concerning the application of the Standard to local government bodies. It also includes a number of separate investigatory questions to gain an understanding of the issues which might face local authorities on application of the Standard.

Full List of Questions Included in the Consultation

IFRS 9 *Financial Instruments*

Q1 Do you consider that local authorities might have purchased or originated credit-impaired financial assets particularly in the area of housing rent debtors? If yes why? If not, why not?

Q2 Do interested parties consider that application of the new classification and measurement provisions or the expected credit loss impairment provisions will have a material impact on General Fund Balances? Please provide an explanation for your response including any estimates which would help to quantify the issue.

IFRS 15 *Revenue for Contracts with Customers*

Q3 Do you agree with the approach to the disclosures under IFRS 15 ie not to include the disclosures in the Code but to require local authorities to apply the requirements when transactions are material? If not, why not? What alternatives do you suggest?

[4] IFRIC 4 *Determining Whether an Arrangement Contains a Lease,* SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Narrow Scope Amendments

Q4 Do you agree with the approach to the adoption of the amendments to IAS 40 *Investment Property* (Transfers of Investment Property)? If not, why not? What alternatives do you suggest?

Q5 Do you agree with the approach to the adoption of the amendments to *Annual Improvements to IFRS Standards 2014 – 2016 Cycle*? If not, why not? What alternatives do you suggest?

Q6 Do you agree with the approach to the adoption of the amendments to *IFRIC 22 Foreign Currency Transactions and Advance Consideration*? If not, why not? What alternatives do you suggest?

Further Guidance

Q7 Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.

SECTION B – 2018/19 CODE – DETAILED DISCUSSION

IFRS 9 *Financial Instruments*

Introduction and Background

25. Interested parties will be aware that the International Accounting Standards Board (IASB) issued IFRS 9 *Financial Instruments* in July 2014. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB has developed IFRS 9 in phases. It was first issued in 2009 with a new classification and measurement model for financial assets, followed by additions in 2010 relating to requirements for financial liabilities and derecognition. In 2013, the Standard was amended to include a new hedge accounting model. It was finalised in July 2014 with this version of the Standard, superseding all previous versions. The new Standard has an effective date of 1 January 2018 so it will formally apply to the 2018/19 Code.

26. IFRS 9 includes:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39, and
- new provisions on hedge accounting.

27. Interested parties will be aware that CIPFA/LASAAC consulted on the approach to adoption of IFRS 9 last year. CIPFA/LASAAC then issued a publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* with the 2017/18 Code in order to provide local authority accounts preparers with appropriate time to prepare for the changes brought forward by the standard. This publication sets out CIPFA/LASAAC's agreed position on the approach to IFRS 9. However, it does not have the authority of the Code and cannot be adopted early by local authorities.

28. CIPFA/LASAAC does not intend to re-expose the provisions included in the separate publication on IFRS 9 as it needs to present a 'steady state' to allow local authorities clarity on the provisions so that accounts preparers can make adequate preparations for the Standards. As usual with any part of the Code CIPFA/LASAAC is happy to consider any commentary on areas where the Code's provisions could be augmented. The paragraphs below also summarise the general approach to adoption of the Standard in the Code. However, there are two areas where CIPFA/LASAAC considers further clarification might be needed they are detailed in paragraphs 31 to 35 below.

Classification and Measurement

29. The classification and measurement provisions follow those in IFRS 9 (with the exception of those adaptations and interpretations that were already included in IAS 39 *Financial Instruments: Recognition and Measurement*)[5]. CIPFA/LASAAC does not consider any further changes to the provisions are required from the approach detailed in the separate publication.

[5] Note that a small number of the adaptations on designation originally in the 2017/18 Code have been removed.

Expected Credit Loss Impairment Model

30. CIPFA/LASAAC has agreed to adopt the provisions on the expected credit loss impairment model without adaptation or interpretation. The approach to drafting in the Code has been to focus on those provisions in IFRS 9 most likely to apply to local authorities. There are two areas, however, where CIPFA/LASAAC would wish to raise in this consultation.

Purchased or Originated Credit-impaired Financial Assets

31. CIPFA/LASAAC's view included in the separate publication on IFRS 9 was that it was unlikely that local authorities would have purchased or originated credit-impaired financial assets (but where these did occur the Standard would need to be followed). A respondent to last year's consultation indicated that some housing rent debtors may be considered to be credit impaired on acquisition. However, CIPFA/LASAAC would seek interested parties' views on whether this is a material and/or a frequent transaction for local authorities. If this is a regular or material transaction for local authorities, paragraph 5.5.13 of IFRS 9 will be inserted before paragraph 7.2.9.15[6] of the Code. A number of the disclosures[7] may also need to include direct reference to the disclosure requirements for purchased or originated credit-impaired financial assets.

Simplified Approach for Trade Receivables, Contract Assets and Lease Receivables

32. CIPFA/LASAAC's adoption of provisions of the standard in relation to impairment without any adaptations or interpretations included the simplified approach to impairment. The simplified approach requires recognition of a loss allowance based on lifetime expected losses from origination. Under the Code's approach to the adoption of the standard a local authority will be required to apply the simplified approach for trade receivables or contract assets that result from transactions within the scope of IFRS 15 *Revenue from Recognition with Customers* (as adopted by the Code) and that do not contain a significant financing component, or when an authority applies the practical expedient for contracts that have a maturity of one year or less, in accordance with IFRS 15.

33. However, an authority has a policy choice to apply either the simplified approach or the general approach for the following:

- all trade receivables or contract assets that result from transactions within the scope of IFRS 15 and that contain a significant financing component in accordance with IFRS 15. The policy choice may be applied separately to trade receivables and contract assets

- all lease receivables that result from transactions that are within the scope of IAS 17. The policy choice may be applied separately to finance and operating lease receivables.

34. CIPFA/LASAAC was not aware of any economic events or circumstances for local authorities that necessitated adaptation and was of the view that local authorities would be able to assess for themselves what the best accounting policy choice would be.

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6 As demonstrated in the separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.*

7 See disclosures at paragraphs 7.3.3.13, 7.3.3.14 and 7.3.3.17 in the separate publication.

35. CIPFA/LASAAC now understands that HM Treasury anticipates adapting the Government's Financial Reporting Manual (the FReM) in this area to require reporting entities to apply the simplified approach to impairment to the transactions outlined in the two bullets in paragraph 33 above. This has the advantage of reducing the reporting burden because it would reduce the need for constant assessment. However, it would result in a more significant 'day one' loss. CIPFA/LASAAC notes the advantages of consistency across the public sector and the benefits of reducing the reporting burden but is concerned in a time of resource constraint that it may result in a more significant 'day one' loss for local authorities. It is not, therefore, proposing to change the Code's approach but would welcome any comments from interested parties' and particularly accounts preparers' views on the impact of the possibility of changing the approach (ie by mandating the simplified approach to impairment for the transactions outlined in paragraph 33).

Accounting for Financial Guarantee Contracts and Amendments to IFRS 4 *Insurance Contracts*

36. In September 2016, the IASB issued amendments to its existing insurance standard IFRS 4 *Insurance Contracts*. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board developed for IFRS 4 (note that IFRS 17 *Insurance Contracts* has now been issued by the IASB). These concerns include temporary volatility in reported results. The current Code does not anticipate that the insurance standard will apply to local authorities, including for financial guarantee contracts. However, the consultation on the 2017/18 Code sought views on whether this is the case. The respondents to the consultation largely clarified that authorities do not account for financial guarantee contracts under IFRS 4 and therefore these amendments are unlikely to apply to local authorities and will not apply to financial guarantee contracts issued by local authorities.

Hedge Accounting

37. Although not a common transaction for many authorities, following the consultation on the Code CIPFA/LASAAC agreed to confirm the position set out in the consultation ie that it would adapt the Code's provisions on hedge accounting to restrict the accounting policy choice to the IFRS 9 hedge accounting policies.

Impact on the General Fund on the Adoption of IFRS 9

38. A number of respondents to last year's consultation on IFRS 9 raised the issue of the impact on the General Fund of the new classification requirements ie as a result of the loss of the available-for-sale class of financial assets and the impact of the new classifications (particularly the new 'default' class, fair value through profit or loss) which will mean revaluation gains or losses being charged against the Surplus or Deficit on the Provision of Services and without any statutory mitigation, the General Fund. Another group of respondents raised the issue of the impact on the General Fund in relation to the ability to designate some pooled funds to equity instruments to fair value through other comprehensive income.

39. CIPFA/LASAAC sought the expert assistance of CIPFA's Treasury and Capital Management Panel to quantify the impact of the new classifications on General Fund Balances. The Panel established a sub group to consider the issue in more detail and it is anticipated that that group will imminently send out a questionnaire to seek more quantitative information on the issue. CIPFA/LASAAC

would encourage local authority accounts preparers to complete the questionnaire or provide any information they consider relevant to the debate.

40. The sub group is also considering whether the new expected credit loss impairment provisions will have a material impact on General Fund Balances.

41. CIPFA/LASAAC would also seek views of interested parties on whether they consider that either the new classification and measurement requirements under the Code or the expected credit loss impairment provisions will have a material impact on General Fund Balances.

IFRS 9 *Financial Instruments*	
Q1	Do you consider that local authorities might have purchased or originated credit-impaired financial assets particularly in the area of housing rent debtors? If yes why? If not, why not?
Q2	Do interested parties consider that application of the new classification and measurement provisions or the expected credit loss impairment provisions will have a material impact on General Fund Balances? Please provide an explanation for your response including any estimates which would help to quantify the issue.

IFRS 15 *Revenue from Contracts with Customers*

Introduction and Background

42. The IASB issued IFRS 15 *Revenue from Contracts with Customers* in May 2014. In September 2015 the IASB deferred the effective date of IFRS 15 by one year to 1 January 2018. IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and their associated interpretations.

43. The IASB issued a revised version of IFRS 15 in April 2016 to address implementation questions that were debated by the Joint Transition Resource Group for Revenue Recognition. The amendments to IFRS 15 were intended to reduce diversity in practice when entities adopt the new revenue standard and decrease the cost and complexity of applying it.

44. The core principle in IFRS 15 is that entities should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

45. Interested parties will be aware that CIPFA/LASAAC consulted on the approach to adoption of IFRS 15 last year. CIPFA/LASAAC then issued a publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* with the 2017/18 Code in order to provide local authority accounts preparers with appropriate time to prepare for the changes brought forward by the standard. This publication sets out CIPFA/LASAAC's agreed position on the approach to IFRS 15. However, it does not have the authority of the Code and cannot be adopted early by local authorities.

46. There were only a few minor augmentations made to the Code's provisions following last year's consultation. With the introduction to the Code of the IFRS

15 provisions CIPFA/LASAAC agreed to introduce principles of revenue recognition to section 2.1. Again the provisions included in the separate publication have only been subject to very minor augmentation.

47. CIPFA/LASAAC does not intend to re-expose the provisions included in the separate publication on IFRS 15 as it needs to present a 'steady state' to allow local authorities clarity on the provisions so that accounts preparers can make adequate preparations for the Standards. As usual with any part of the Code CIPFA/LASAAC is happy to consider any commentary on areas where the Code's provisions could be augmented.

Disclosure Requirements for IFRS 15

48. IFRS 15 includes increased disclosures to help users understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It requires an entity to disclose quantitative and/or qualitative information about:

- revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories
- contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities
- performance obligations, including when the entity typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract
- significant judgements, and changes in judgements, made in applying the requirements, and
- assets recognised from the costs to obtain or fulfil a contract with a customer.

49. CIPFA/LASAAC is of the view that local authority income transactions are not normally complex and do not normally involve substantial recognition or measurement issues. It therefore considered that local authorities should only include the IFRS 15 disclosures if the information relating to the disclosure is material to its financial statements and therefore the approach in the separate publication is to require direct reference to IFRS 15 when this is the case. Also the separate publication sets out that an authority is required to aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

50. However, in its debates and research in this area CIPFA/LASAAC considered the work of US GAAP on the disclosure requirements for non-public and certain not for profit entities. Interested parties will be aware that the project to develop IFRS 15 was a joint project between the IASB and the Financial Accounting Standards Board (FASB), the US standard setter, to develop a common revenue recognition standard for IFRS and US GAAP. Therefore the disclosure requirements of IFRS 15 are for the large part the same as those disclosures required by the Accounting Standards Codification (ASC) *606 Revenue from*

Contracts with Customers. However, US GAAP includes reliefs for non-public entities and certain not for profit entities[8].

51. Non-public entities and certain not for profit entities can choose to provide all of the disclosures required for public entities or to provide reduced disclosures or to utilise the reliefs. The Basis of Conclusions for ASC 606 indicates that the FASB decided that some of the disclosure requirements should differ for non-public entities, primarily because the costs of providing them outweigh the benefits. Appendix A to this ITC summarises for interested parties the reliefs available in US GAAP under ASC 606.

52. CIPFA/LASAAC, however, understands that local authorities are entering into more commercial income generating activities and is minded not to change the approach in the separate publication which already emphasises the need to ensure that local authority only includes income transactions that are material to its financial statements and is seeking views on this approach.

IFRS 15 *Revenue from Contracts with Customers*	
Q3	Do you agree with the approach to the disclosures under IFRS 15 ie not to include the disclosures in the Code but to require local authorities to apply the requirements when transactions are material? If not, why not? What alternatives do you suggest?

Narrow Scope Amendments

IAS 7 *Statement of Cash Flows* (Disclosure Initiative)

53. In January 2016 the IASB issued an amendment to IAS 7 *Statement of Cash Flows* (Disclosure Initiative) to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment to IAS 7 was as a result of feedback from users at the Board's Financial Reporting Disclosure Discussion Forum in January 2013. The users highlighted that understanding an entity's cash flows is critical to their analysis and that there is a need for improved disclosures about an entity's debt, including changes in debt during the reporting period.

54. Although these amendments are as a response to investors it is likely that it will be useful to the wider users of local authority financial statements to have more information on local authority debt. CIPFA/LASAAC considers that these disclosures would apply to local authorities and therefore has included amendments at paragraph 3.4.2.81 of the Code. It would welcome feedback from interested parties on this issue.

55. The amendments to the Code for IAS 7 were included in last year's consultation. However, they were not adopted by the European Union (EU) in time for inclusion in the 2017/18 Code and therefore CIPFA/LASAAC has rolled forward the changes to the 2018/19 Code. Again this would be subject to adoption by the EU.

56. The majority of respondents to last year's consultation supported the inclusion of this amendment. A small number of respondents disagreed with the proposals

8 To be considered a non-public entity and use the reliefs an entity cannot be either of the following a) a public business entity or b) a not-for profit entity that has issued (or is a) a conduit bond obligor or an employee benefit plan that files financial statements with the Securities and Exchange Commission.

and indicated that they did not consider that the information intended for investors was a relevant consideration for local authorities. They also considered that this could lead to duplication. CIPFA/LASAAC does not concur - it is of the view that in a period of resource constraint information about an authority's debt (including changes in debt) is important information for the users of local authority financial statements. CIPFA/LASAAC would also note that the disclosure framework in the Code should enable a local authority to avoid duplication of information.

IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses)

57. The amendments to IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses) clarify how to account for deferred tax assets related to debt instruments measured at fair value. This may apply to local authorities' Group Accounts but will not apply to the single entity statements. Appendix D will make it clear that this standard will apply to the 2018/19 Code subject to EU adoption by the effective date for that Code.

58. This amendment was included in last year's consultation on the Code. However, it was not adopted by the EU in time for inclusion in the 2017/18 Code and therefore CIPFA/LASAAC has rolled forward the changes to the 2018/19 Code. Again, this would be subject to adoption by the EU.

IAS 40 *Investment Property* (Transfers of Investment Property) (Proposed Amendments to IAS 40)

59. In December 2016 the IASB issued an amendment to IAS 40 *Investment Property* (Transfers of Investment Property) which provides clarification of paragraph 57. This paragraph deals with transfers to or from the investment property classification. The amendment provides clarification about when a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. This change will apply to local authorities and may impact on local authority accounting policies.

60. Paragraph 57 is currently only included by cross-reference in the 2017/18 Code. CIPFA/LASAAC will therefore not include the amendments directly into the 2018/19 Code. It will, include reference to the transitional provisions in paragraphs 84C to 84D in Appendix C to the Code. The inclusion of these amendments to IAS 40 in the Code will be subject to EU adoption by 1 January 2018.

Narrow Scope Amendments: IAS 40 *Investment Property* (Transfers of Investment Property)	
Q4	Do you agree with the approach to the adoption of the amendments to IAS 40 *Investment Property* (Transfers of Investment Property)? If not, why not? What alternatives do you suggest?

Annual Improvements to IFRS Standards 2014 – 2016 Cycle

61. The application of *Annual Improvements to IFRS Standards 2014 – 2016 Cycle* (Annual Improvements) to the Code is outlined in Appendix B to this ITC. CIPFA/LASAAC would note that it is of the view that none of the amendments will

have a substantial application to local authorities. The adoption of the Annual Improvements in the Code will be subject to EU adoption by 1 January 2018.

62. One of the amendments within the Annual Improvements, the amendments to IFRS 12 *Disclosure of Interests in Other Entities* clarifies the scope of IFRS 12 with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Although this amendment does not relate to common transactions for local authorities it has been included in the Code as it is important that the Code includes full details of the scope of the main standards that it adopts. This amendment has an effective date of 1 January 2017. However, the amendments to the Standard were not adopted by the EU in time to be included in the 2017/18 Code.

Narrow Scope Amendments: Annual Improvements to IFRS Standards 2014 – 2016 Cycle	
Q5	Do you agree with the approach to the adoption of the amendments to *Annual Improvements to IFRS Standards 2014 – 2016 Cycle*? If not, why not? What alternatives do you suggest?

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

63. IFRIC 22 *Foreign Currency Transactions and Advance Consideration* was issued in December 2016. IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IAS 21 *The Effects of Changes in Foreign Exchange Rates* does not apply regularly to local authorities although may apply to pension funds. CIPFA/LASAAC considers that it may be useful to include reference to IFRIC 22 in Appendix A, paragraph A.1.4 although again it does not consider that the IFRIC will also have a wide application in local authorities. The inclusion of IFRIC 22 in the Code will be subject to EU adoption by 1 January 2018.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	
Q6	Do you agree with the approach to the adoption of the amendments to *IFRIC 22 Foreign Currency Transactions and Advance Consideration*? If not, why not? What alternatives do you suggest?

Telling the Story of Local Authority Financial Statements - Amendments to the Debtors and Creditors Disclosures

64. Paragraphs 5.3.4.2, 1) and 8.1.4.2, 1) of the 2017/18 Code include disclosures that are not required by IFRS. They provide an analysis of debtors and creditors across specified groupings of public sector organisations. The equivalent disclosures have been removed from the FReM reporting requirements and therefore CIPFA/LASAAC has decided to remove them from the Code.

Legislative and Policy Initiatives

***The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* for English Authorities**

65. *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* (Item 8 Determination) was issued on 24 January 2017. For housing authorities in England it:

- continues to allow impairment charges on dwelling assets to be reversed out of the HRA following the end of the transitional period
- extends the principle to non-dwelling assets in the HRA from 2017/18
- confirms that from 2017/18 depreciation should be charged to the HRA in accordance with proper practices, and
- includes revaluation gains adjustments and charges, as they would be applied under proper practices.

66. The only references in the Code to the Item 8 Determination relate to the entries for depreciation and therefore the references to the ability to limit depreciation to the amount of the notional Major Repairs Allowance will need to be removed from paragraph 4.1.3.6 of the Code. At this current juncture CIPFA/LASAAC does not consider that it is necessary to issue an update to the 2017/18 Code for this limited amendment.

Pooling of Local Government Pension Scheme Investments in England and Wales

67. Interested parties are likely to be aware that in the Summer Budget 2015 the Chancellor announced the Government's intention to invite the 89 administering authorities in England and Wales to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver reduced costs while maintaining overall investment performance. There are eight pools being established. CIPFA/LASAAC understands that a number (but not all) of the pools being established will deliver the investment and savings objectives using a special purpose vehicle. It is of the view, however, that no changes are required to the Code as the accounting requirements are covered by the existing provisions in the 2017/18 Code.

IFRS 16 *Leases*

Introduction and Background

68. The International Accounting Standards Board (IASB) issued IFRS 16 *Leases* in January 2016. It supersedes IAS 17 *Leases* and its associated interpretations[9]. The effective date of IFRS 16 is for reporting periods commencing on or after 1 January 2019. An entity can decide to apply IFRS 16 before that date but only if it also applies IFRS 15. Subject to CIPFA/LASAAAC decisions and EU adoption the standard will apply in the 2019/20 Code.

69. IFRS 16 specifies the principles for recognition (including providing a new definition of a lease), measurement, presentation and disclosure of leases both for the lessee and for the lessor. The Standard was developed as a joint project between the IASB and FASB, although there are divergences in the lessee accounting model.

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9 IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

70. CIPFA/LASAAC would note that the changes are so substantial that the IASB allowed private sector entities three years to implement the standard. It will be important therefore that local authorities understand the reporting and practical implications and have adequate preparation time to apply the Standard.

71. CIPFA/LASAAC has established a sub group on leases to consider the approach to application of the Standard and to assist it in preparing the consultation papers on IFRS 16 adoption in the Code. CIPFA/LASAAC intends to issue a single issue consultation on the Standard in December 2017. This is in line with the HM Treasury consultation on the approach to adoption of the Standard in the FReM. CIPFA/LASAAC's approach will be to maintain consistency with the FReM where possible and where local government circumstances permit.

72. Appendix C to the ITC provides a brief outline of IFRS 16 and includes initial issues on the application of the Standard to local government bodies.

Further Guidance

73. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where additional guidance would be welcomed or improvements to the Code could be made to take into account within the development programme for future editions of the Code, or where relevant, refer to the Local Authority Accounting Panel.

Further Guidance	
Q7	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.