Technical Information Note: 18 (01) from the CIPFA/LASAAC Local Authority Accounting Code Board

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

Feedback Statement on the 2018/19 Code Following Consultation

Section 1: Introduction

1. This publication is a Feedback Statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) updating accounts preparers and other interested parties on the amendments to the 2018/19 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following the consultation processes on the Code in July to October 2017 and (for a number of Code amendments) July to October 2016.

2. This Feedback Statement should be considered alongside the consultation papers on the Code.

   (The consultation documents are available on the archived consultation pages of the CIPFA website.[1])

3. **This Feedback Statement does not form any part of the 2018/19 Code**.

4. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by CIPFA/LASAAC. The Code is reviewed continuously and is normally updated annually. The Code confirms that in the unusual event that other statutory provisions require departures from the Code, then the statutory provisions must be followed.

5. In meeting its terms of reference CIPFA/LASAAC is committed to having due regard to ensuring high quality financial reporting in local authority financial statements.

6. The main areas for amendments to the Code for 2018/19 include:

   (a) IFRS 9 *Financial Instruments*

   (b) IFRS 15 *Revenue from Contracts with Customers*

   (c) narrow scope amendments to IFRS

   (d) minor amendments.

7. CIPFA/LASAAC has also made a number of amendments to the Code's provisions in relation to the 'Telling the Story' changes introduced in the 2016/17 Code.

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[1] See links: **Code of Practice on Local Authority Accounting in the United Kingdom 2017/18: Invitation to Comment**; **Code of Practice on Local Authority Accounting in the United Kingdom 2018/19: Invitation to Comment**

Approach to the Adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*

8. CIPFA/LASAAAC consulted on the approach to the adoption in 2018/19 of IFRS 9 and IFRS 15 alongside its consultation on the 2017/18 Code. To ensure that local authority accounts preparers had sufficient time to prepare for the changes CIPFA/LASAAC issued its agreed provisions for both IFRS 9 and IFRS 15 in a separate publication accompanying the 2017/18 Code.[2] This Feedback Statement therefore includes actions that arise from the consultations in the summer of both 2016 and 2017.

9. Two sets of narrow scope amendments were also included in the consultation on the 2017/18 Code. However, they were not adopted by the European Union (EU) in time for adoption of that Code and therefore they were rolled over into the development programme for the 2018/19 Code. Consequently the feedback also includes actions that arise from the consultations in the summer of both 2016 and 2017.

Respondents to the Code Consultations

10. The following table sets out an analysis of the respondents to the consultations on the 2017/18 and 2018/19 Codes.

Table 1: Analysis of Respondents to the 2017/18 and 2018/19 Code Consultations

Body	2017/18 Code Consultation Number of Respondents (for IFRS 9 and IFRS 15**)	2018/19 Code Consultation Number of Respondents
Local authorities	32*	35
Police bodies	1	2
National audit bodies	2	2
Professional accounting firms	4	3
Confidential respondents	4	4
Other	4	3
Total	**47**	**49**

* This includes responses from pension funds
** and also the narrow scope amendments to IAS 7 *Statement of Cash Flows* and IAS 12 *Income Taxes*

IFRS 9 *Financial Instruments*

11. While acknowledging that it had to ensure the Code was drafted in such a way that it properly reflected local authority transactions CIPFA/LASAAAC has been concerned since it started consulting on the adoption of IFRS 9 about the impact of the new classification requirements for financial assets on the General Fund Balances of local authorities. CIPFA/LASAAC raised the issue of the possible budgetary impacts of the

[2] *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*, CIPFA/LASAAC, April 2017.

new classification model as early as its consultation on the 2016/17 Code in July 2015 with even more focus in the consultations on the 2017/18 and 2018/19 Codes. It also enlisted the expert guidance of the CIPFA Treasury and Capital Management Panel to consider the impact of the classification model and the expected (credit) loss impairment model in more detail.

12. CIPFA/LASAAC devoted substantial time to the debate on the issue at its November 2017 meeting, considering both the technical and practical application issues brought about by the adoption of the standard.

13. CIPFA/LASAAC considered the relevance of IFRS 9 to local authority investments (the technical arguments are considered in more detail in section 2) and concluded that full adoption of the standard was appropriate. The new standard was introduced to provide a single approach to the classification and measurement of financial instruments. One of the key impacts of IFRS 9 will be that, while many local authority loans and investments will continue to be held at amortised cost, gains and losses arising from changes in the fair value of some categories of investments will have to be recognised in authorities' revenue accounts. This means that from 2018/19 changes in the value of certain investments will have a consequential impact on the General Fund. Previously any changes in the fair value of these investments were only recognised in the General Fund when the asset was sold.

14. Following CIPFA/LASAAC's meeting representations had been made at a senior level within CIPFA and the Board met again on 18 January 2018 to review its decision made at the November 2017 meeting. Members of the Board gave their understanding of the implications for budget setting, stressing that there could be unrealised gains as well as losses. The Board recognised that there may be a case for statutory mitigation although also members noted that despite a number of calls for evidence (from both CIPFA and CIPFA/LASAAC) the Board had not received substantial clear evidence of the impact. The Board, following debate, identified no reason to revisit the accounting provisions in the Code that had informed its decision making at its previous meeting. The Board was clear on the accounting treatment under the Code's provisions ie that the Code should follow the provisions of IFRS 9 for the classification of financial assets.

15. CIPFA/LASAAC, however, remains concerned about the impact on local authority financial statements and is committed to supporting the government and the devolved administrations with their consideration of statutory mitigation. CIPFA/LASAAC understands that this issue might not be a substantial one in Northern Ireland, Scotland and Wales. However, in England it is anticipated that government will consult on amendments to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to provide statutory mitigation against the volatility of fair value gains and losses for certain collective investment vehicles before disposal.

16. CIPFA/LASAAC will continue to be open to new evidence and will keep the position under review to assess whether any new actions might need to be taken in the form of an update to the 2018/19 Code if, for example, the statutory mitigation outlined in paragraph 14 was subject to a delay.

Section 2: IFRS 9 Financial Instruments

Classification and Measurement

Questions Asked in the 2017/18 Consultation on Classification	
Q14	Do you agree with the proposed approach to the adoption of IFRS 9 for classification and measurement of financial assets? If not, why not? What alternatives do you suggest?
Q15	Do you agree with CIPFA/LASAAC's view that the designation of equity instruments at fair value through other comprehensive income should only be used for strategic investments held by a local authority? If not, why not? What alternatives do you suggest?
Question Asked in the 2018/19 Consultation on the Impact on the General Fund	
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.

17. The majority of respondents agreed with the general approach to classification of financial assets in the Code.

18. A respondent suggested that to reduce the burden of complying with the requirements of IFRS 9 the Code could be adapted to include a rebuttable presumption that financial assets should be measured at amortised cost. Following the evidence of the consultation responses which have focused on instruments which were previously classified as available-for-sale financial assets and the commentary that local authorities were diversifying their portfolios due to low interest rates CIPFA/LASAAC did not consider that it has the evidence to support this rebuttable presumption and therefore did not take forward this proposal. It is also important to note on application of the standard that there is not necessarily a direct crossover from the classes of financial assets in IAS 39 *Financial Instruments: Recognition and Measurement* to those of IFRS 9.

19. The 2017/18 Code consultation raised the issue of the impact on the General Fund of the new classification requirements. A number of respondents to that consultation also raised the same issue focusing on the loss of the available-for-sale class of financial assets and the new 'default' class being '*fair value through profit or loss*' (FVPL) which will mean revaluation gains or losses being charged against the Surplus or Deficit on the Provision of Services. Without any statutory mitigation these charges will flow through to the General Fund. At its November 2016 meeting CIPFA/LASAAC referred this issue to the Treasury and Capital Management Panel. The issue of the impact on the General Fund was also included in the 2018/19 Code consultation.

20. Despite the substantial focus of the Treasury and Capital Management Panel and including a number of consultative processes, CIPFA and CIPFA/LASAAC have not been provided with substantial evidence on the size of the impact on the General Fund, although the evidence available confirms that there will be an impact. CIPFA/LASAAC debated the issue at length at its November 2017 meeting and particularly concentrated on the impact on some collective investment vehicles. CIPFA/LASAAC decided not to change its approach to the adoption of IFRS 9 and it

decided to issue a statement on its approach. The [CIPFA/LASAAC Statement on the Adoption of IFRS 9 Financial Instruments] is available on the CIPFA website.

21. The impact of IFRS 9 on the General Fund for collective investment vehicles was subsequently raised within CIPFA as an issue of concern. CIPFA/LASAAC met in January 2018 and confirmed its position on the adoption of IFRS 9 and in relation to collective investment vehicles (see below paragraphs 26 to 30) and did not propose any further changes to the 2018/19 Code. CIPFA/LASAAC indicated that it would assist CIPFA in its support to the devolved administrations and central government in providing the relevant evidence for statutory mitigation. CIPFA/LASAAC is also committed to keeping the position under review to support local authorities in the adoption of the standard (see paragraphs 15 and 16).

22. This issue initially considered in the consultation on the 2017/18 Code is the ability to designate investments in collective investment vehicles to fair value through other comprehensive income. A substantial number of respondents agreed with the classification approach in the 2017/18 Code consultation, but this was subject to their concerns raised in relation to question 15 on the designation of equity instruments to fair value through other comprehensive income.

Use of the Election in IFRS 9 to Designate Equity Instruments to Fair Value through Other Comprehensive Income

23. The positive responses to question 15 in the 2017/18 consultation were marginally greater than those who disagreed with the view set out in the consultation documents. The documents set out that the designation of equity instruments to fair value through other comprehensive income should only be used for strategic investments held by authorities (the consultation documents gave the example of equity shares in bus companies and airports). This issue received a strong negative response from a group of respondents. It was raised in the consultation on the 2018/19 Code which focused on the impact of the standard on the General Fund and in the review by the Treasury and Capital Management Panel which also focused on the impact on local authority investments in collective investment vehicles.

24. CIPFA/LASAAC would note that the default class for financial assets in IFRS 9 is FVPL. It is likely that many collective investment vehicles would be classified to FVPL as they are in large part unlikely to meet the test for solely payments of principal and interest (known as the SPPI test) for either of the two other classifications under the standard.

25. An investment in an equity instrument can be elected into a '*fair value through other comprehensive income*' (FVOCI) treatment rather than FVPL if it is not held for trading[3] (see paragraphs 7.1.5.5 and 7.1.5.9 of the Code[4]). CIPFA/LASAAC has been consistently of the view that (with the exception of pension funds) local authorities are not likely to hold financial instruments for trading because of the regulatory regime for local authority investments.

26. The issue is whether the collective investment vehicles are '*investments in an equity instrument*'. Equity instruments are defined in paragraph 7.1.2.9 of the 2018/19 Code and IFRS 9 as contracts that evidence a residual interest in the assets of an entity after deducting all of its liabilities.

27. It is understood that some of the collective investment vehicles may be '*puttable*' financial instruments ie these are investments where the holder has a contractual right to require the issuer to repurchase or redeem the instrument for cash or other

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[3] Also more rarely, it is not contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations applies*.

[4] As supported by paragraphs 4.1.4 and 5.7.5 of IFRS 9.

financial assets. This would be consistent with an authority's use of such vehicles for treasury management purposes.

28. IAS 32 *Financial Statements: Presentation* paragraph 11 provides the definition of a financial asset which includes 'an equity instrument of another entity'. Paragraph 16 then provides for when an instrument meets the definitions of both a financial liability and an equity instrument, excluding them from the latter definition. However, paragraph 16A requires the issuer to present puttable instruments by means of classification of financial liabilities as equity instruments. This therefore only allows for the classification of such instruments as equity and does not change the definition of the instruments.

29. This differentiation between puttable instruments being defined or classified as equity instruments is considered in paragraph 5.21 of the basis of conclusions in IFRS 9 which states (emphasis added):

    *"The IASB noted that in particular circumstances a puttable instrument (or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation) is **classified** as equity. However, the IASB noted that such instruments do not meet the **definition** of an equity instrument."*

30. CIPFA/LASAAC would note that this issue has been discussed at the IFRS Interpretations Committee and finalised in its agenda decision in September 2017. The Committee has confirmed its view in its finalisation of its project *Financial Assets Eligible for Election to Present Changes in Fair Value in Other Comprehensive Income*. The committee:

    "concluded that a financial instrument that has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32 is not eligible for the presentation election in paragraph 4.1.4 of IFRS 9".

    It determined that no further amendments to IFRS are necessary. CIPFA/LASAAC concurs with the view of the IFRS Interpretations Committee and the IASB in the basis of conclusions.

31. CIPFA/LASAAC would also note that IFRS including IFRS 9 would require that such instruments are presented both fairly and transparently in local authority financial statements to reflect the substance of the transactions in question.

32. The consultation documents covered this issue so it could be considered in more detail by interested parties but the Board did not suggest adapting the Code in any way for the classification and designation of financial assets. CIPFA/LASAAC in accordance with the approach in the consultation and as outlined in its statement has included the ability to designate equity instruments to fair value through other comprehensive income in accordance with IFRS 9.

Designation of Financial Instruments (to Fair Value through Profit or Loss)

Questions Asked in the 2017/18 Consultation on Designation of Financial Instruments (to Fair Value through Profit or Loss)	
Q16	Do you agree that the Code should remove the adaptation for designations of financial instruments? If not why not? What alternatives do you suggest?

33. The majority of respondents to the Code consultation supported the approach in the consultation to remove the 2017/18 Code prohibitions against designation and to permit designations of financial instruments to fair value through profit or loss.

34. A small number of respondents disagreed, indicating that the Code needs to emphasise that such designations should be applied consistently and that some authorities might 'cherry pick' in order to take unrealised gains to the Comprehensive Income and Expenditure Statement. On this issue CIPFA/LASAAC could not see any local government circumstance requiring adaptation of IFRS 9 in this area. The substantial disclosure framework and the general requirement to present transactions fairly in the financial statements should discourage inappropriate use of the provisions in IFRS 9. The 2018/19 Code therefore has maintained the position in the consultation papers and has not included any adaptations for the designation of financial instruments.

IFRS 9 – Reclassification of Financial Assets

Questions Asked in the 2017/18 Consultation on Reclassification of Financial Assets	
Q17	IFRS 9 includes substantial provisions on reclassifications of financial assets and has amended IFRS 7 *Financial Instruments: Disclosures* to include similarly substantive disclosures on this issue. CIPFA/LASAAC is of the view that local authorities will rarely need to reclassify their financial assets and has therefore included minimal references to these provisions in IFRS 9 and IFRS 7. Do you agree with this approach? If not, why not? What alternatives do you suggest?

35. The majority of respondents to the 2017/18 Code consultation agreed with the approach in the consultation ie that minimal provisions should be included in the Code on this issue (as local authorities are unlikely to reclassify their financial assets) but that where they do they should follow the requirements of IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*.

36. CIPFA/LASAAC has therefore retained the approach originally in the consultation ie that minimal provisions are included on this issue in the 2018/19 Code.

Expected (Credit) Loss Impairment Model

Questions Asked in the 2017/18 Consultation on the Expected Credit Loss Impairment Model	
Q18	Do you agree that the Code should not adapt the provisions for the measurement of impairment losses under IFRS 9? If not, why not? What alternatives do you suggest?
Q19	Do you have any financial guarantee contracts which should be accounted for as insurance contracts under IFRS 4 *Insurance Contracts*? Please provide a reason for your response.
Question Asked in the 2018/19 Consultation on Purchased or Originated Credit-impaired Financial Assets and on the Impact of the Expected Credit Loss Model on the General Fund	
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.

37. The majority of respondents agreed the approach in consultation documents in relation to impairment of financial assets. The Code Exposure Draft consulted on in 2017/18 adopted the requirements of IFRS 9 and the expected (credit) loss model without direct adaptation or interpretation.

38. Some respondents (who disagreed with this approach) indicated that it is likely there is more work in preparing for the new reporting requirements under the standard (note this comment was made in respect of responses to the 2017/18 and the 2018/19 Code consultations and the consultative process by the Treasury and Capital Management Panel). In addition where impairment losses do not transpire they will be written back to the financial statements. Although it is possible that the total impairment losses recognised will not be greater than under IAS 39, the impairment allowances will be recognised as a 'day one' loss therefore this will affect the timing of the budgetary consequences of the change.

39. The issue of the impact of the expected (credit) impairment loss model was considered both as a part of the 2018/19 Code consultation and as a part of the outreach activity by the Treasury and Capital Management Panel. The majority of respondents (with a small number of exceptions) appeared to conclude that the impact of the new requirements should be minimal in relation to the treasury management investments held by local authorities due to the low risk and secure nature of the investments which local authorities participate in.

40. A number of respondents were, however, concerned about the impact on General Fund Balances of the model on loans to third parties (including loans for services purposes) and on trade debtors/receivables. CIPFA/LASAAC is of the view that there may be a material impact. However, unfortunately the responses to both the Code consultation and the consultative process issued by the Treasury and Capital Management Panel have not provided substantial evidence to be able to quantify this impact.

41. Despite the responses to the consultative processes CIPFA/LASAAC did not consider that it had evidence that local government circumstances existed that required it to adapt or interpret the Code for these issues and the Code follows the provisions of IFRS 9 for the expected (credit) loss impairment model.

Financial Guarantee Contracts

42. In September 2016, the IASB issued amendments to its existing insurance standard IFRS 4 *Insurance Contracts*. The amendments address concerns arising from implementing 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 2017/18 Code did 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.

43. The respondents to the consultation largely clarified that authorities do not account for financial guarantee contracts under IFRS 4. Therefore these amendments are unlikely to apply to local authorities and will not apply to financial guarantee contracts issued by local authorities. Accordingly no provisions on IFRS 4 under these amendments are included in the Code.

Purchased or Originated Credit-impaired Financial Assets

44. The Exposure Draft of the Code provisions for IFRS 9 assumed that it would be rare for local authorities to have purchased or originated credit impaired financial assets. However, a respondent to the 2017/18 Code consultation questioned whether this

was the case and raised the issue of housing rent debtors. This issue was therefore considered in the consultation on the 2018/19 Code.

45. Although a larger number of respondents (15, or 31%) considered that local authorities are unlikely to hold purchased or originated credit-impaired financial assets, CIPFA/LASAAC is of the view that there is enough evidence from the responses to indicate that such transactions do occur for local authorities with sufficient frequency to warrant the inclusion of the relevant IFRS 9 provisions on purchased or originated credit-impaired financial assets. Relevant paragraphs have been included in the 2018/19 Code (see paragraphs 7.2.9.15 and 7.2.9.16).

Simplified Approach to Impairment

46. The consultation papers referred to 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 *Leases* and whether there are any consequences as a result of this decision. Only four respondents commented on this issue.

47. Two respondents considered that it was important to maintain consistency with the government's Financial Reporting Manual (the FReM) while two considered that it was reasonable to maintain CIPFA/LASAAC's current approach. CIPFA/LASAAC debated this issue in some detail and was content with its previous position to follow the provisions of IFRS 9 and not to mandate the use of the simplified approach for these transactions. It considered that local authorities were best placed to decide for themselves the most appropriate presentation of the financial statements and therefore decided to maintain its position by following the standard in relation to the simplified approach to impairment under IFRS 9.

Impairment Allowances in Relation to Balances with Central Government and Other Public Sector Bodies

48. The government's Financial Reporting Advisory Board has determined that the risk of default is effectively nil for balances with government's central funds and other public sector bodies where legislation prevents default. CIPFA/LASAAC therefore considered following the anticipated approach in the FReM ie to include an adaptation whereby any government Exchequer funds' assets for which repayment is ensured by primary legislation are excluded from recognising stage 1 and stage 2 impairments. After debate CIPFA/LASAAC agreed to include an interpretation in the Code which was similar to this effect. However, CIPFA/LASAAC considered that this was only likely to be relevant to central and local government bodies and decided to be specific about the relevant statutory provisions in local government legislation. It therefore decided to include reference to the relevant statutory provisions in relation to default for local authorities.

Impairment Allowance for Council Tax, Non-Domestic Rates and District Rates

Questions Asked in the 2017/18 Consultation on Impairment Allowance for Council Tax, Non-Domestic Rates and District Rates	
Q20	Do you agree with the proposed approach to the impairment allowance for council tax, non-domestic rates and district rates? If not, why not? What alternatives do you suggest? Please provide the reasoning for your response.

49. The majority of respondents agreed with the proposals and concurred that council tax, non-domestic rates and district rates are outside of the financial instruments standards, with the majority of respondents agreeing with the approach in the invitation to comment (ITC) and Exposure Draft that impairment losses on these debtor balances should continue to be measured under the incurred loss model.

50. A number of respondents raised the issue of other non-exchange contracts and particularly housing benefits overpayments (reference was also made to fines). The respondents noted that any debtor balances that do not arise from contracts should be treated the same way. CIPFA/LASAAC concurs that on a principles basis such balances should be treated the same way and has therefore included the relevant provisions in paragraphs 5.2.2.11 to 5.2.2.16 of the 2018/19 Code. CIPFA/LASAAC would note, however, that this is particularly an issue for council tax, non-domestic rates and district rates.

51. Two respondents were critical of this approach and were of the view that the impairment loss model to be used for the non-financial instruments debtor balances was the expected (credit) loss model as it is deemed to provide better information. Other comments on this issue included:

- the standard contained practical expedients which permitted the use of provision matrices, and
- the simplified model could be used.

52. CIPFA/LASAAC is of the view that these transactions are not financial instruments as the transactions are a result of statutory requirements and not contracts. CIPFA/LASAAC has therefore decided to maintain the incurred loss model for any debtor balances relating to these transactions. CIPFA/LASAAC was content with this approach because council tax and non-domestic rates are payable for the relevant year of account. For example, in England there are statutory arrangements for payments by instalments (over a ten month period to January or, more recently, 12 months) but all instalments must be paid during the course of the financial year in question.[5] Any debtor balances at 31 March of the relevant year are therefore by definition 'past due' or are in default. This means that if these balances were considered under the provisions of IFRS 9 they would be defined as credit impaired at 31 March under the definitions in the Appendix to IFRS 9.

53. CIPFA/LASAAC would note that any debtor balances that arise for these forms of taxation are not within the scope of either IFRS 9 or IFRS 15 and are not likely to give rise to a financial asset. The recognition of a loss allowance on initial recognition for local taxation would not properly present the financial performance of local authorities. The 2018/19 Code therefore includes the incurred loss model for debtor balances (as outlined in paragraphs 5.2.2.11 to 5.2.2.16) and particularly in its provisions for recognition of any impairment for council tax and non-domestic rates and district rates.

54. CIPFA/LASAAC would highlight that it is aware that CIPFA considers that it is important not to change the reporting requirements for debtors relating to council tax and non-domestic rates and general rates to be clear that there are no financial consequences of the reporting of local taxation on the adoption of IFRS 9. It understands that CIPFA is also concerned that following substantial reporting and budgetary consequences that have arisen on non-domestic rate appeals it is sensitive of the need to ensure that there is no impact of the adoption of IFRS 9 on recognition of local taxation income.

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[5] The provisions to make these regulations under the Local Government Finance Act 1992 Schedule 2, 2 (2) (a) and the Local Government Finance Act 1988 Schedule 9, 2 (2) (a).

The Approach to Adaptations of IFRS 9 in the Code

Questions Asked in the 2017/18 Consultation on the Approach to Adaptations of IFRS 9 in the Code	
Q21	The Exposure Draft of the Code has largely maintained the current adaptations and interpretations included for IAS 39 *Financial Instruments: Recognition and Measurement*. This is with the exclusion of the approach to designations of financial instruments (see also questions 15 and 16 above) and the regular way trades of financial instruments and the addition for hedge accounting (see question 23 below). Do you agree with this approach? If not, why not? What alternatives do you suggest?

Overall Approach to Adaptations and Interpretations

55. The 2018/19 Code has largely maintained the current adaptations and interpretations included for IAS 39. This is with the exclusion of:

- the approach to designations of financial instruments
- the removal of the adaptation in relation to regular way trades of financial instruments
- the addition of an adaptation for hedge accounting (see paragraphs 64 and 65), and
- an interpretation for balances with central and local government (see paragraph 48) where the relevant statutory provisions prevent default.

56. Two respondents raised the issue of the 'adaptation' in relation to Lender Option Borrower Option loans (LOBOs). One stated that it was "*confused by the adaptation relating to LOBOs which states that the authority shall not separately account for the derivatives embedded in a LOBO, whilst allowing authorities the option to do just that if they feel that the terms of the loan justify it*". Please note that this commentary relates to both the 2017/18 and the 2018/19 Codes.

57. The 2016/17 text of paragraph 7.1.1.2 e) stated:

"The Code requires:

- *options embedded in a LOBO shall not be separately accounted for unless after considering the contractual terms of the instrument the authority concludes that IAS 39 would require the embedded options to be accounted for separately (see paragraph 7.1.6.9)…"*

58. Paragraph 7.1.6.9 [extract] stated:

"*…The options embedded in a LOBO would not usually be required to be separately accounted for under IAS 39 and such instruments shall be accounted for on this basis unless on considering the terms of the instrument the authority concludes that IAS 39 would require the options to be accounted for separately*".

59. CIPFA/LASAAC confirms that this was an interpretation of IFRS which sets out how a local authority is required to apply the provisions in a standard and not an adaptation which amends the standard to reflect local authority circumstances.

60. Paragraph 7.1.1.2[6] e) of the 2017/18 Code and paragraph 7.1.1.3 c) of the 2018/19 Code have been amended to state that options embedded in a LOBO shall not be accounted for separately and the sentence referred to above in paragraph 7.1.6.9 has been removed. The amendments to the Code also clarify which of the items listed in the paragraph(s)[7] are adaptations and which are interpretations.

61. The first reference to 'options' was related specifically to the call options that characterise clauses within a LOBO contract. CIPFA/LASAAC confirms that the 2018/19 Code and the 2017/18 Code continue to require that local authorities follow the provisions of IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* respectively in relation to the accounting treatment of embedded derivatives in contracts where there are LOBO clauses.

62. CIPFA/LASAAC is of the view that the Code's provisions in relation to contracts with LOBO clauses do not require further adaptation or interpretation. There are a variety of complex transactions under these types of loan arrangements. However, CIPFA/LASAAC is content that the underlying financial reporting standards adopted by the Code (ie IAS 39 in the 2017/18 Code and IFRS 9 in the 2018/19 Code) provide the relevant accounting provisions and are able to reflect local government circumstances.

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[6] Note that the reference to IFRS 9 in the 2017/18 Code should be read as IAS 39, consistent with the adoption of IAS 39 in the 2017/18 Code

[7] Paragraphs 7.1.1.3 in the 2018/19 Code and 7.1.1.2 in the 2017/18 Code

The Approach to Hedge Accounting

Questions Asked in the 2017/18 Consultation on the Approach to Hedge Accounting	
Q22	The Exposure Draft of the Code only includes cross-reference to the IFRS 9 hedge accounting provisions rather than including the provisions directly in the Code (CIPFA/LASAAC is particularly interested in whether this might have any implications for local authority Group Accounts). Do you agree with this approach? If not, why not? What alternatives do you suggest?
Q23	Do you agree with CIPFA/LASAAC's approach to adapt the Code to not allow local authorities to apply the hedge accounting requirements of IAS 39? If not, why not? What alternatives do you suggest?

Approach to Drafting in the Code

63. The majority of respondents agreed with the view set out in the consultation documents that the Code only needs to cross-refer to the accounting provisions in IFRS 9, agreeing that hedge accounting in local authorities was rare.

Adaptation on the Choice of Hedge Accounting Policy (ie allowing the use of IAS 39 or IFRS 9)

64. The consultation documents set out CIPFA/LASAAC's view that the accounting policies for hedge accounting in IFRS 9 are superior to those in IAS 39. IFRS 9 allows the accounting policy choice for entities to apply either IAS 39 hedge accounting or IFRS 9 hedge accounting. As CIPFA/LASAAC was of the view that local authorities have rarely used hedge accounting then it would be simpler and clearer to adapt the Code and allow local authorities only to use the IFRS 9 hedge accounting policies.

65. However, a group of respondents asked for clarity on whether these provisions apply to pension funds. The respondents made it clear that most pension funds undertake hedging activities. The provisions of chapter seven apply to pension funds. CIPFA/LASAAC investigated this issue and was of the view that although local authority pension funds undertake hedging activities they do not apply the hedge accounting policies in IAS 39. CIPFA/LASAAC therefore maintained the position in the Exposure Draft as outlined in paragraph 64.

Disclosures of Financial Instruments

Questions Asked in the 2017/18 Consultation on Disclosures of Financial Instruments	
Q24	IFRS 9 has introduced substantial new disclosure requirements to reflect the changes in the standard for classification and measurement. CIPFA/LASAAC has not included those disclosures that it considers will rarely apply. Do you agree with this approach? Are there any other disclosures that will not normally apply to local authorities which can therefore be removed from the Code? Please give reasons for your response.
Q25	The Exposure Draft has been written from the perspective that local authorities seldom hold or are required to provide collateral and therefore the relevant disclosure requirements have been removed. Do you agree with this approach? If not, why not? What alternatives do you suggest?

Approach to the Disclosure Framework in IFRS 9

66. The majority of respondents agreed with the approach set out in the consultation papers ie the Code should not include those disclosures that rarely apply to local authorities.

67. A group of respondents considered that the disclosures relating to master netting agreements and the disclosures relating to default on loans payable rarely apply and so could be omitted. CIPFA/LASAAC concurs that these events will rarely apply but considers that it would not be useful to partially edit a disclosure. CIPFA/LASAAC is also of the view that although the expectation of default is low, it could occur and if it did it would be such an important issue that such disclosures would be essential. CIPFA/LASAAC has therefore not removed these disclosures from the 2018/19 Code.

68. A respondent did not agree with the approach as it considered that the Code summarised the disclosure requirements in the Standard. CIPFA/LASAAC does not concur – each new disclosure introduced to IFRS 7 by IFRS 9 has been included in the Code unless it is unlikely to apply, in which case the 2018/19 Code has included appropriate cross-reference to the relevant new disclosure in IFRS 7.

69. The same respondent suggested that CIPFA/LASAAC might wish to consider FRS 101 *Reduced Disclosure Framework*, disclosure exemptions from EU-adopted IFRS for qualifying entities. CIPFA/LASAAC does not concur; FRS 101 sets out a reduced disclosure framework for the individual financial statements of subsidiaries, including intermediate parents, and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRSs. The reduced disclosure framework only applies to the individual financial statements of qualifying entities and the accountability framework is provided by the consolidated financial statements of the parent.

70. CIPFA/LASAAC would note that although local authority Group Accounts are increasing in importance currently local authority single entity financial statements have primacy. It would also mean that the parent local authority producing the Group Accounts would still need to apply the IFRS 7 provisions in any event which would not reduce the reporting burden. CIPFA/LASAAC would note that it is not aware of any other parts of the public sector using this option.

Disclosures Relating to Collateral

71. A group of respondents were clear that local authorities may hold collateral if they invested in reverse repurchase agreements. CIPFA/LASAAC has therefore included the relevant disclosures on collateral in the 2018/19 Code. It has included a new paragraph 7.3.2.9 (paragraph 15 of IFRS 7) and has reinstated references to collateral in paragraph 7.3.3.20.

IFRS 9 – Presentation

Questions Asked in the 2018/19 Code Consultation on IFRS 9 – Presentation	
Q26	Do you agree with the approach to the presentation of the gains and losses on financial instruments on the face of the Comprehensive Income and Expenditure Statement? If not, why not? What alternatives do you suggest?

72. The majority of respondents did not agree with CIPFA/LASAAC's proposals for the changes in presentation on the face of the Comprehensive Income and Expenditure Statement (which included new line items for interest revenue calculated using the effective interest method; gains and losses arising from the derecognition of financial

assets measured at amortised cost and impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with section 7.2.9 of the Code).

73. Two groups of respondents were opposed to the proposals as they were concerned that this level of detail may obscure the main messages in the Comprehensive Income and Expenditure Statement. CIPFA/LASAAC debated the issue and the Code now includes the relevant transactions in the financing and investment income and expenditure line with the requirement to disclose these items on the face of the Comprehensive Income and Expenditure Statement or in the notes if these items are material.

Items Meeting the Definition of Capital Expenditure

74. A respondent was concerned about the treatment of gains or losses on instruments which meet the definition of capital expenditure under statute. This will apply only to 'share' capital in England and Wales[8] or 'share or loan' capital in Northern Ireland. CIPFA/LASAAC is of the view that like property, plant and equipment movements in fair value and/or impairments would not be chargeable to the General Fund – the relevant commentary has been included in the Code.

IFRS 9 – Transition

Questions Asked in the 2018/19 Code Consultation on IFRS 9 – Transition	
Q27	Do you agree with the approach to transition included in the Code, including the option to not restate preceding year information? If not, why not? What alternatives do you suggest?

75. The majority of respondents agreed with the approach to transition in the 2018/19 Code ie including the option in IFRS 9 to not restate preceding year information. This approach is therefore included in the 2018/19 Code.

Statutory Accounting Requirements – Impairment of Certain Investments

Questions Asked in the 2018/19 Code Consultation on Statutory Accounting Requirements – Impairment of Certain Investments	
Q28	Do you agree that the Code no longer needs to include provisions on the statutory accounting requirements for the impairment of certain investments? If not, why not? What alternatives do you suggest?

76. The majority of respondents agreed that the statutory accounting requirements for the impairment of certain investments can be removed from the Code. The relevant references have therefore been removed from the Code.

[8] Note that the 2018/19 Code has not taken into account the amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 which removed loan capital from the statutory definition of capital expenditure – see SI 2018 No. 325 (W. 61).

Section 3: IFRS 15 *Revenue from Contracts with Customers*

Recognition and Measurement

Questions Asked in the 2017/18 Consultation on the Approach to Adoption of IFRS 15	
Q29	Do you agree with the proposed approach to include the provisions of IFRS 15 in the 2017/18 Code (but with an effective date of 1 April 2018) so that accounts preparers have adequate time to prepare for this substantial new standard? If not, why not? What alternatives do you suggest?
Q30	Do you agree with the proposed approach to the adoption of IFRS 15 for recognition and measurement of revenue with contracts from service recipients? Do you agree that the Code does not need adaptation or interpretation for revenue recognition under IFRS 15? If not, why not? What alternatives do you suggest?

77. The majority of respondents agreed with the general approach to adoption of and recognition and measurement under IFRS 15.

78. One respondent that disagreed (but indicated that they agreed with the overall approach) raised the issue of exchange and non-exchange transactions and their application. These definitions have not changed in the Code from previous editions. CIPFA/LASAAC would highlight that on the margin the definition of a non-exchange transaction can be difficult and will require judgement on behalf of the authority. The approach to non-exchange transactions has also been clarified by the additional provisions in section 2.1 of the Code, including the flow chart. The definitions of exchange and non-exchange contracts were originally derived from IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. CIPFA/LASAAC has included additional cross-reference to IPSAS 23 which should further help to illustrate the more difficult issues. The approach in the Code to exchange and non-exchange transactions has therefore not changed from the approach in the Exposure Draft or previous editions of the Code.

79. The respondent also raised an issue about whether the provisions in section 2.7 apply to exchange or non-exchange transactions. CIPFA/LASAAC is of the view that they apply primarily to exchange transactions and has included this clarification at paragraph 2.7.1.4. It has also included the comment that where the relevant provisions can be applied to non-exchange transactions, a local authority may find it useful to do so.

IFRS 15 Disclosure Requirements

Questions Asked in the 2018/19 Consultation on IFRS 15 Disclosure Requirements	
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?

80. CIPFA/LASAAC's approach to disclosures in the 2017/18 consultation was not to include the specific disclosure requirements in the Code so that accounts preparers could refer directly to IFRS 15 when a disclosure requirement related to a material transaction for a local authority. It sought interested parties' views on the approach

and as it was such a substantial issue considered it again in the 2018/19 Code consultation. Two respondents disagreed with the approach, with one considering that the Code should be the primary source of reference for the production of local authority financial statements.

81. CIPFA/LASAAC concurred that the Code should be viewed as the primary reference point for local authority financial statements and decided to include the disclosures that are relevant to normal local authority transactions in the 2018/19 Code.

IFRS 15 – Transition

Questions Asked in the 2017/18 Consultation on IFRS 15 – Transition	
Q32	Do you agree with the approach to transition included in the Code including the option to not restate preceding year information? If not, why not? What alternatives do you suggest?

82. The consultation documents proposed to follow the option in IFRS 15 which requires retrospective restatement with adjustments made to the appropriate opening balances (on 1 April 2018) of the current period (ie without restating previous year information).

83. The majority of respondents agreed with the approach set out in the ITC and Exposure Draft. A respondent raised a query on the approach in paragraph 2.7.2.48. However, this paragraph includes the provisions introduced by the amendments to IFRS 15 issued in April 2016. No changes were made from the Exposure Draft approach.

Principles of Revenue Recognition

Questions Asked in the 2017/18 Consultation on the Principles of Revenue Recognition	
Q33	Do you agree with the principles for revenue recognition set out in section 2.1 of the Code? If not, why not? What alternatives do you suggest?

84. The majority of respondents agreed with the approach to revenue recognition in section 2.1. With the exception of minor augmentations and clarifications the approach to the principles of revenue recognition remains unchanged from those set out in the Exposure Draft.

Section 4: Narrow Scope Amendments to IFRS

Questions Asked in the 2017/18 Consultation on Narrow Scope Amendments to IFRS	
Q8	Do you agree with the approach to the adoption of the Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative*?* If not, why not? What alternatives do you suggest?
Q9	Do you agree with the approach to the adoption of the amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses? If not, why not? What alternatives do you suggest?

Narrow Scope Amendments

Introduction

85. Two narrow scope amendments were considered in the consultation on the 2017/18 Code:

- IAS 7 *Statement of Cash Flows:* Disclosure Initiative
- IAS 12 *Income Taxes:* Recognition of Deferred Tax Assets for Unrealised Losses.

Both of these amendments were not adopted by the EU in time for inclusion in the 2017/18 Code and therefore CIPFA/LASAAC rolled forward the changes to the 2018/19 Code.

IAS 7 Statement of Cash Flows (Disclosure Initiative)

86. A small number of respondents disagreed with the proposals to include the amendments to IAS 7 in the Code 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 did 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.

87. One of the respondents to the 2018/19 consultation indicated in relation to the changes put forward by IAS 7 that the Code should make clear how the requirement can be met rather than simply referring people to the IAS 7 amendments to find out. CIPFA/LASAAC agreed with these comments and has augmented the reporting requirements to assist accounts preparers in meeting these new requirements. The 2018/19 Code therefore includes paragraph 44D (but maintains the other cross-references to IAS 7 following the original approach in the Exposure Draft).

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

88. The majority of respondents agreed with the proposal to include the amendments to IAS 12 which clarify how to account for deferred tax assets related to debt instruments measured at fair value. The approach in the Exposure Draft ie only to refer to the amendments in Appendix D of the Code has been taken forward into the 2018/19 Code.

Narrow Scope Amendments to IFRS Included in the 2018/19 Code Consultation

89. The 2018/19 Code consultation included the following amendments to IFRS for consideration for inclusion in the 2018/19 Code:

- IAS 40 *Investment Property*: Transfers of Investment Property
- *Annual Improvements to IFRS Standards 2014-2016 Cycle*, and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

These amendments to IFRS were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore they have been rolled forward into the development programme for the 2019/20 Code.

Section 4: Minor Amendments

90. The 2018/19 Code consultation referred to the removal of the disclosure requirement to provide an analysis of debtors and creditors across specified groupings of public sector organisations.

91. A respondent noted the disclosure requirements in IAS 1 *Presentation of Financial Statements "to provide a breakdown of debtors and creditors"* (in accordance with paragraph 77 of IAS 1) and expected the Code to include this requirement. CIPFA/LASAAC agreed that this requirement applied to local authorities and augmented paragraph 3.4.2.63 to ensure that the reporting requirements in the 2018/19 Code for debtors and creditors are clear. CIPFA/LASAAC also included cross-reference to the relevant reporting requirements in sections 5.2 (Debtors) and 8.1 (Creditors) of the 2018/19 Code.

92. The 2018/19 Code includes a number of minor drafting augmentations, particularly in relation to IFRS 9.

93. The 2018/19 Code also includes reference to the fact that 2018/19 will be the last year of the Carbon Reduction Commitment Scheme (CRC). Organisations will report under the CRC for the last time by the end of July 2019 and surrender allowances for emissions from energy supplied in the 2018/19 compliance year by the end of October 2019.

94. In accordance with the annual update process Appendix C of the Code has also been updated to reflect the reporting requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for the introduction of new or amended standards. It should be noted that the transitional reporting requirements for IFRS 15 and IFRS 9 are included in section 2.7 (Revenue from Contracts with Service Recipients) and Chapter Seven (Financial Instruments).

Section 6: Review of the Telling the Story Changes to the 2016/17 Code

95. CIPFA/LASAAC initiated an early review of the Telling the Story changes introduced into the 2016/17 Code. A small number of respondents also raised issues in relation to the changes. CIPFA/LASAAC therefore decided to make a number of amendments and clarifications to the 2018/19 Code.

96. CIPFA/LASAAC has agreed that the service section of the Comprehensive Income and Expenditure Statement will no longer provide the IFRS 8 *Operating Segments* reporting requirements though the service analysis will be consistent with the segments included in the Expenditure and Funding Analysis note. The Expenditure and Funding Analysis will provide the segmental reporting requirements.

97. CIPFA/LASAAC also decided to include clarification to confirm that extra columns could be added to the Expenditure and Funding Analysis if this was needed to ensure that local authorities clearly demonstrate the relationship of their segmental analysis, the General Fund and the service analysis presented in the Comprehensive Income and Expenditure Statement. Clarifications of the segmental reporting requirements under the Expenditure and Funding Analysis have also been included in the 2018/19 Code.

98. CIPFA/LASAAC has also committed to include further outreach activity on the Telling the Story changes and the need to streamline local authority accounts. These will be announced on the CIPFA/LASAAC pages of the CIPFA website. Any comments on the Telling the Story changes introduced in the 2016/17 Code should be sent to CIPFA/LASAAC using the financial.reporting@cipfa.org email address by **8 October 2018**.

CIPFA/LASAAC
April 2018

APPENDIX

Useful References

Consultation on the 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code): **Code of Practice on Local Authority Accounting in the United Kingdom 2017/18: Invitation to Comment**

Consultation on the 2018/19 Code: **Code of Practice on Local Authority Accounting in the United Kingdom 2018/19: Invitation to Comment**

CIPFA/LASAAC Statement on the Adoption of IFRS 9 Financial Instruments

Clarification statement on contracts with LOBO clauses

Please note that the guidance and clarification offered by this Technical Information Note should not be taken as an authoritative interpretation of the law and should not be considered as constituting a definition of proper accounting practice.

This Technical Information Note is intended to assist practitioners with the application of the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). The Technical Information Note is intended to clarify the requirements of the Code, but is not prescriptive and does not have the formal status of the Code. All reasonable care is exercised in preparing the Technical Information Note. However, accounts preparers should always refer to the primary sources before relying on this advice and check any interpretation of published guidance with their own professional advisors and their own circumstances.