



# HM TREASURY

## Financial Reporting Advisory Board Paper

### Accounting for financial instruments – update re EEA

<b>Issue:</b>	Update on the adoption of new accounting standards for financial instruments in one of the Government's central funds, the Exchange Equalisation Account (EEA)
<b>Impact on guidance:</b>	N/A
<b>UK GAAP adaptation?</b>	Yes
<b>IAS/IFRS compliant?</b>	No
<b>IPSAS compliant?</b>	No
<b>Impact on budgetary regime?</b>	N/A [the EEA is outside the budgetary regime]
<b>Recommendation:</b>	The FRAB is invited to note the EEA's adoption of FRSs 23, 26 & 29
<b>Timing:</b>	2005-06

## DETAIL

### Background

1. The Treasury reported to the Board in November 2005 on its strategy for implementation of the new accounting standards for financial instruments in or before 2006-07 by entities that trade in financial instruments, principally the central funds. The purpose of this paper is to inform the Board that the standards are to be adopted in 2005-06 in one of those funds, the Exchange Equalisation Account because changes have been made in that year to the underlying systems and procedures that facilitate this process.

2. Adoption is through an Accounts Direction, a draft of which is attached for information in Annex A. This is the first time the Accounts Direction has been updated since full accruals accounting was first followed in the EEA's accounts in 2000-01, a draft of the Accounts Direction for which was considered by the FRAB at its meeting on 11 May 2001 [FRAB 48 (4)].

### **UK GAAP compliance**

3. The only adaptation of UK GAAP is in that there is a capital charge, as there is also for entities reporting under the FReM.

### **IAS/IFRS compliance**

4. There are relatively minor differences between the FRSs and the related IASs as applying in 2005-06. These do not appear to be relevant to the EEA's accounts. In addition, the imposition of a capital charge is non-compliant with IASs/IFRSs.

### **IPSAS compliance**

5. IPSASs do not yet reflect many significant revisions to IASs/IFRSs.

### **Summary and recommendation**

6. The FRAB is invited to note the adoption in the EEA of new accounting standards for financial instruments through the attached draft Accounts Direction.

HM Treasury  
20 March 2006

**ANNEX A**

**ACCOUNTS DIRECTION GIVEN BY HM TREASURY UNDER THE EXCHANGE EQUALISATION ACCOUNT ACT 1979<sup>1</sup>**

1. The Treasury shall prepare accounts for the Exchange Equalisation Account (“the Account”) for the year ending 31 March 2006 and each subsequent financial year that give a true and fair view of the state of affairs of the Account at the balance sheet date and of its income and expenditure, total recognised gains and losses and cash flows for the year then ended. The accounts shall be prepared under the historical cost convention modified to include certain investments at valuation and in accordance with applicable accounting standards and where appropriate, although not subject to the Companies Act and technically not being the accounts of a bank, the special provisions of Schedule 9 of the Companies Act 1985 relating to banking companies.
2. The accounts shall also be consistent with relevant requirements of the Government Financial Reporting Manual, except to the extent set out in sub-paragraphs a., b. and c. below, and shall meet the extra information requirements set out in Appendix A:
  - a. An income and expenditure account shall be prepared instead of Schedule 2, the operating cost statement, and both it and the balance sheet shall be prepared in the same format as those required by Schedule 9 of the Companies Act 1985. Schedule 1 (Statement of Parliamentary Supply) and Schedule 5 (Statement of Operating Costs by Departmental Aim and Objectives), are also not relevant;
  - b. The accounts shall follow the requirements of FRS 23 (IAS 21) *The Effects of Changes in Foreign Exchange Rates* (instead of SSAP 13, *Foreign Currency Translation*), FRS 25 (IAS 32) *Financial Instruments: Presentation*, FRS 26 (IAS 39) *Financial Instruments: Measurement*, and FRS 29 (IFRS 7) *Financial Instruments: Disclosures* (instead of FRS 13 *Derivatives and other financial instruments: disclosures*) other than Appendix E, *Capital Disclosures*;
  - c. A notional cost of capital charge shall apply at a rate to be determined by the Treasury. The cost shall be included in the Income and Expenditure Account and credited direct to the reserve at the year-end.
3. This Accounts Direction shall be reproduced as an Appendix to the Accounts.
4. This direction supersedes that issued on 19 December 2001.

HM Treasury  
XX XXXX 2006 [draft 10 March 2006]

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<sup>1</sup> As amended by the Finance Act 2000

# ACCOUNTS DIRECTION GIVEN BY HM TREASURY UNDER THE EXCHANGE EQUALISATION ACCOUNT ACT 1979

## Appendix A

### EXTRA INFORMATION REQUIRED TO BE DISCLOSED

1. In addition to meeting appropriate requirements of the Companies Act and the Financial Reporting Manual, the following extra information shall be disclosed, including in order to facilitate the preparation and consistency of Whole of Government Accounts.

#### Annual Report

2. The Annual Report shall include:

- a) A brief history of the Account, and its statutory background;
- b) An outline of the scope of the Account, its status in relation to HM Treasury and other central funds, and its management arrangements;
- c) An operating and financial review:
  - i) meeting relevant requirements of the Accounting Standards Board's RS 1, *Operating and Financial Review (OFR)* ; and
  - ii) including appropriate information on financial performance and position reflecting the relationship between the Account and other relevant central funds reflected in the UK's official holdings of international reserves, and information on targets for the EEA set by HM Treasury and their achievement.

#### Notes to the accounts

3. The notes to the accounts shall include the following:

- a) Analyses of assets, between fixed and current assets;
- b) Analyses of debtors and creditors, between those falling due within and after one year;
- c) Where not separately disclosed on the face of the income and expenditure accounts, analyses of income and expenditure giving totals for the following:
  - i) Interest receivable and similar income
  - ii) Interest payable and similar charges, separately identifying any notional cost of capital charge
  - iii) Other operating income, including income derived from the provision of services
  - iv) Management costs
- d) Disclosure of income and expenditure, and assets and liabilities, relating to other central government funds, including the National Loans Fund.