



HM TREASURY

Financial Reporting Advisory Board Paper

CONVERGENCE: AN UPDATE

Issue:	Preparing a shadow Financial Reporting Manual based on EU-adopted IFRS.
Impact on guidance:	Not on the current version.
UK GAAP adaptation?	N/A
IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Recommendation:	That the Board approves the proposal.
Timing:	2008-09 or 2009-10 (depending on implementation date for an IFRS-based FReM)

DETAIL

Background

1. At its meeting on 20th March, the Treasury discussed with the Board the implications for the government of the ASB's announcement that it has stopped its phased convergence with IFRS and suggests a 'big bang' convergence (details still to be worked out) from 1 January 2009 at the earliest. The Board agreed that the Treasury needs to consider the appropriate timing for a move to IFRS in the light of the needs of government, but expressed the view that the government should move to IFRS no later than the ASB's 'big bang' convergence date.

2. No decision has yet been taken on the appropriate timing for government moving to IFRS. But our proposal is to start preparing for a move to be made ahead of the likely ASB timetable if this fits better with the needs of government.

The proposal

3. The Treasury proposes to develop a shadow FReM based on EU-adopted IFRS as at 1 January 2006 and plans for it to be ready by May 2007. This will give departments and other entities time to assimilate any changes that might be required in financial reporting in time for 1 April 2008 – should a decision be made to move to IFRS from 2008-09 instead of 2009-10 (in line with the likely ASB timetable).

Keeping up to date

4. Once the shadow FReM was complete, the Treasury would keep under review developments in IFRS to see whether the FReM needed updating:

- for a manual applicable in 2008-09, any **significant** changes to IFRS in 2006 and 2007 would be reflected in an updated Manual;
- for a manual applicable in 2009-10, the FReM would be reviewed and based on EU-adopted IFRS as at 1 January 2008.

5. The IASB generally issues IFRS for application for accounting periods beginning on or after the 1 January at least twelve months after the publication of the IFRS. A balance sheet at 31 March 2010 would in theory be based on IFRS extant at 1 January 2008 if the Treasury uses the above approach to keeping up-to-date – in practice, however, the balance sheet is more likely to reflect standards as at 1 January 2009.

Summary and recommendation

6. The Treasury invites the Board to approve the proposal to develop a shadow FReM based on EU-adopted IFRS as at 1 January 2006, ready for use from 2008-09 should that be the government's decision.

HM Treasury
26 April 2006