



HM TREASURY

Financial Reporting Advisory Board Paper

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 1 *FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS*

Issue:	Further consideration of the implementation of IFRS 1, which deals with the first time adoption of IFRSs.
Impact on guidance:	The proposed text in Annex A relates to the IFRS-based FReM.
IAS/IFRS adaptation?	No.
IPSAS compliant?	N/A.
Interpretation for the public sector context?	No.
Impact on budgetary regime?	The impact on the budgetary regime of individual IASs/IFRSs is considered in the papers dealing with those IASs/IFRSs.
Alignment with National Accounts	Questions on the alignment with National Accounts of individual IASs/IFRSs are considered in the papers dealing with those IASs/IFRSs.
Impact on Estimates?	The impact on Estimates of individual IASs/IFRSs is considered in the papers dealing with those IASs/IFRSs.
Recommendation:	The FRAB is invited to note the proposals in the paper, and to approve the revised wording for the IFRS-based FReM.
Timing:	Not yet known: depends on future decision on date for moving to EU-adopted IFRS.

DETAIL

Background

1. At its meeting on 31 October 2006, the FRAB considered a paper (FRAB(82)05) setting out proposals for the application of IFRS 1. This suggested that the first set of IFRS-based accounts might include UK-GAAP based comparative figures unless there were material differences between

figures determined on a UK-GAAP and IFRS basis. This approach was suggested in order to avoid complications with reconciling IFRS-based figures with those used in previous Estimates and accounts.

2. The FRAB felt that this was an unsatisfactory proposal, in particular as preparers of accounts would need to determine the comparative figures under both bases in order to establish whether there were material differences. The meeting concluded that further consideration should be given to the proposal.

3. As IFRS 1, in common with other standards, applies only to material items, it seems unnecessary to make specific reference to materiality in connection with comparative figures. We are thus proposing to amend the suggested wording for the FReM as set out in FRAB(82)05, by omitting references to interpreting the standard. In other words, IFRS 1 will be applied in full, with the first set of IFRS-based accounts including comparative figures determined on an IFRS basis. Paragraph 38 of IFRS 1 requires an explanation of the effects of applying IFRSs on the reported financial position, financial performance and cash flows, and this information should be sufficient to facilitate a comparison between previous Estimates and accounts and the IFRS-based financial statements.

The IFRS-based Government Financial Reporting Manual

4. See Annex A for the proposed amendments to IFRS-based FReM.

Summary and recommendation

5. This paper amends the proposal in the previous FRAB paper on the implications of adopting IFRS 1 that the first set of IFRS-based accounts may include UK-GAAP based comparatives. The effect of the amendment is that there is no interpretation of IFRS 1 for the public sector.

HM Treasury
November 2006

PROPOSED TEXT FOR THE IRFS-BASED GOVERNMENT FINANCIAL REPORTING MANUAL

IFRS 1: *FIRST TIME ADOPTION OF INTERNATIONAL REPORTING STANDARDS*

Applicability

IFRS 1 applies.

Objective of IFRS 1

The objective of IFRS 1 is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- Is transparent for users and comparable over all periods presented;
- Provides a suitable starting point for accounting under International Financial Reporting Standards; and
- Can be generated at a cost that does not exceed the benefits to users.