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

CIPFA/LASAAC on 8 November 2017 approved the adoption of IFRS 9 *Financial Instruments* into the Local Authority Accounting Code[1] and therefore this will apply to local government accounts from 2018/19. The Board considered the relevance of IFRS 9 to local authority investments and concluded that full adoption of the Standard was appropriate. All investment activity involves risk and local authorities are required to manage this risk under CIPFA's Treasury Management Code and the statutory Investment Guidance[2]. The Board recognised that local authorities have invested in financial transactions and instruments that contain additional risk to the capital invested. The Board concluded that implementation of IFRS 9 will help to drive improved transparency and decision-making in treasury management and in the determination of longer-term investment strategies.

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, whilst 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 consequent 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. The recognition of unrealised gains and losses may provide a particular challenge to local authority CFOs who will have to consider whether unrealised gains should be held back in order to provide for potential future losses. This may have an impact on the level of local authority reserves being held to manage risk.

The implementation of this standard has been discussed since 2015 and has attracted considerable interest, especially in recent weeks. Extensive consultation has been undertaken by both CIPFA/LASAAC and CIPFA's Treasury and Capital Management Panel. At its meeting on the 8 November, CIPFA/LASAAC debated the issue for nearly two hours. The Board reached a strong consensus that the planned implementation should go ahead as set out in the consultations.

The Board considered the categories of investments that could be caught by the fair value measurement provisions of IFRS 9. Particular attention was paid to the various collective investment vehicles that form part of many local authorities' investment portfolios. There was some sympathy for the view that some form of statutory override might be appropriate, particularly relating to the treatment of existing unrealised gains or losses on transition at 1 April 2018. Representatives from central and devolved governments in attendance at the meeting confirmed that they would be willing to consider representations from local authorities in this area informed by evidence.

The Board agreed that further guidance on the application of IFRS 9 should be issued to assist practitioners in implementing the standard. CIPFA's Local Authority Accounting Panel is finalising its development of early guidance to assist accounts' preparers and will consider this issue in further detail at its next meeting, which is on 23 November 2017.

CIPFA/LASAAC
13 November 2017

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[1] The Code of Practice on Local Authority Accounting in the United Kingdom issued by the CIPFA/LASAAC Local Authority Accounting Code Board on an annual basis.
[2] Guidance on Local Government Investments issued by the Department of Communities and Local Government and the Welsh Government