

ABSTRACT OF ITC QUESTIONS

2 FINANCIAL INSTRUMENTS

CONSULTATION QUESTIONS – BACKGROUND TO THE PROPOSAL TO BASE THE 2007 SORP ON THE NEW FINANCIAL INSTRUMENTS STANDARDS

Q1 Do you agree that it would not be credible to leave the SORP financial instruments accounting requirements unchanged?

Agree, so long as the significant issues raised as part of the 2006 consultation are resolved and there is a nil impact on taxpayers.

Q2 Do you agree that the options for updating the financial instruments requirements of the SORP are:

(a) to base the new SORP requirements on the new standards for all authorities;
or

(b) to base the new SORP requirements on the new standards only for authorities that are listed entities and to revise the SORP to deal much more comprehensively with financial instruments under the old standards for other authorities (with the probability that the SORP financial instruments requirements would need change again within a few years)?

Agree with option a)

Q3 Do you agree that the SORP requirements for financial instruments should be based on the new financial instruments standards?

Agree subject to defining those standards.

CONSULTATION QUESTIONS – KEY CONCLUSIONS UNDERLYING THE JOINT COMMITTEE PROPOSALS FOR INCORPORATING FRS 26 INTO THE SORP

Q4 Do you agree that:

(a) Local authorities do not normally hold financial instruments for trading or derivative financial instruments?

No, we as do many other local authorities employ fund managers who will hold such instruments for trading as part of a prudent treasury management/investment policy.

(b) The accounting requirements relating to financial instruments at fair value through profit or loss are best covered in an Annex rather than the main body of the chapter on financial instruments?

Agree

(c) All authorities should account for similar transactions in a similar way and therefore the SORP should indicate how the discretions permitted generally to entities under FRS 26 should be exercised?

Agree

(d) Unless it was determined that a local authority held financial instruments for trading, the SORP should require financial instruments to be classified into one of the following three FRS 26 financial instrument categories:

- Other financial liabilities (ie at amortised cost)
- Loans and receivables
- Available-for-sale financial assets?

Agree

(e) All authorities should use trade date accounting?

Agree

Q5 Do you agree with the Joint Committee's preferred approach to soft loans of:

- writing down all soft loans to fair value on initial recognition
- recognising a grant-in-aid prepayment asset for those soft loans which enhance the long-term capacity of the borrowing non-profit organisation to deliver its services
- immediately expensing the write down of other soft loans?

See response to Question 8.

Q6 Do you agree with the Joint Committee's analysis of the circumstances in which it would be appropriate to recognise the write down to fair value of a soft loan as an asset?

See response to Question 8.

Q7 If you do not agree (see Q6 above) do you consider that there are any circumstances in which it would be appropriate to recognise the write down to fair value as an asset? If so, please specify the circumstances.

See response to Question 8.

Q8 If you do not agree with the Joint Committee's preferred approach, which approach do you prefer, eg:

- (a) initial recognition at fair value with the write down to fair value of all soft loans immediately expensed
- (b) initial recognition at fair value with the write down of all loans carried on the balance sheet as a prepaid grant-in-aid
- (c) initial recognition at the amount of the loan advanced
- (d) another approach (please specify)?

Whilst we agree with the recognition of Soft Loans our preferred approach is option b), option a) to be on an exceptional basis. In respect of the definition of soft loans we would expect to exclude all invoiced debt and some level of materiality to apply.

CONSULTATION QUESTIONS – SORP INTERPRETATIONS OF FRS 26 REQUIREMENTS

These questions are not relevant to Tonbridge and Malling Borough Council at the current time and for the foreseeable future and therefore do not feel it appropriate to comment.

Q9 Do you agree with the ITC's interpretation (see Appendix 1 of the ITC) of how amortised cost using the effective interest rate would apply to the following types of transactions:

- (a) a fixed rate bond purchased at a discount?
- (b) a fixed rate loan debt carrying a rate of interest that is not the same for the whole term of the loan ('stepped')?
- (c) a variable rate bond purchased at a premium?

Please comment individually on questions (a) to (c).

Q10 Do you agree with the ITC's interpretation of how a debt restructuring that is a modification of the terms of the old loan(s) should be accounted for? See Appendix 2 of the ITC.

Q11 Do you agree with the ITC's interpretation of how a 'vanilla' LOBO loan should be accounted for? See Appendix 3 of the ITC.

Q12 Do you agree with the ITC's interpretation of how a 'stepped' LOBO loan should be accounted for? See Appendix 3 of the ITC.

CONSULTATION QUESTIONS – TRANSITION TO THE PROPOSED NEW FINANCIAL INSTRUMENTS ACCOUNTING REQUIREMENTS

Q13 Do you agree that the effective date for transition to the proposed new financial instrument requirements should be 1 April 2007?

Agree

Q14 Do you agree that recognition and derecognition of financial instruments before 1 April 2006 (eg carrying forward on the balance sheet a premium on early repayment of loan debt) should not be changed notwithstanding that the accounting treatment would have been different if the 2007 SORP financial instruments requirements had been in place at the time?

Agree

Q15 Do you agree that authorities should not be required to restate comparatives?

Agree

Q16 Do you agree that financial assets and liabilities should be re-measured on the transition date?

Agree

Q17 Do you agree that authorities should assess whether on transition to the 2007 SORP requirements any financial asset impairment write-downs or provisions under their existing accounting policy need to be reversed and/or whether new impairment write-downs should be provided in accordance with the 2007 SORP

requirements?

Agree

Q18 Do you agree that any adjustment to the previous carrying amount of financial instruments whether arising from the review of recognition and derecognition decisions made in 2006/07 or from re-measurement on transition to the 2007 SORP requirements should be recognised as an adjustment to the 2007/08 opening General Fund Balance, except for the difference between the previous carrying amount and the fair value of an Available-for-Sale financial asset, which should be recognised in an Available-for-Sale reserve?

Agree

CONSULTATION QUESTIONS – IMPACT ON AUTHORITIES’ BUDGET REQUIREMENTS OF THE PROPOSED FINANCIAL INSTRUMENTS ACCOUNTING REQUIREMENTS

Q19 Do you agree that the proposals within the 2007 ITC for premiums incurred before 1 April 2007 should not take effect unless, as expected, regulations to mitigate their impact on taxation were in force?

Although this does not affect Tonbridge and Malling Borough Council we agree that there should be a nil impact on the taxpayer

Q20 Do you agree that if after consultation the Joint Committee was minded to require the write down to fair value of all soft loans to be immediately expensed, the Joint Committee should not implement such an amendment to the SORP unless, as expected, regulations to mitigate the impact on taxation were in force?

Agree

Q21 Are there any further transitional issues that should be considered?

None identified.

CONSULTATION QUESTIONS – DISCLOSURE REQUIREMENTS

Q22 Do you agree that if the Joint Committee bases the 2007 SORP financial instruments accounting requirements on FRS 26 it should base the disclosure requirements on FRS 29?

Agree

Q23 Do you agree with the approach outlined in paragraphs 2.49 and 2.52 above for determining the FRS 29 disclosure requirements that should be adopted by the SORP?

Agree

Q24 Do you agree that the hedge accounting disclosures should not be covered in detail by the 2007 SORP?

Agree

Q25 Do you have comments on specific disclosure requirements? If so, please give your comments.

No comments

CONSULTATION QUESTIONS – PRESENTATION REQUIREMENTS

Q26 Do you have any comments on the presentation requirements? If so, please give your comments.

No comments.

3 OTHER ACCOUNTING STANDARDS DEVELOPMENTS

CONSULTATION QUESTIONS – OTHER ACCOUNTING STANDARDS DEVELOPMENTS

Q27 Do you agree that:

- FRS 23 *The Effects of Changes in Foreign Exchange Rates*
- FRS 24 *Financial Reporting in Hyperinflationary Economies*
- FRS 28 *Corresponding Amounts*
- UITF Abstract 41 *Scope of FRS 20*
- UITF Abstract 42 *Reassessment of Embedded Derivatives*

are the only other accounting standards developments that need to be included in amendments to the SORP?

To the best of our knowledge yes.

Q28 Do you agree with the amendments to the SORP proposed in respect of these standards?

Agree.

4 REVALUATION RESERVE

CONSULTATION QUESTIONS – REVALUATION RESERVE

Q29 Do you agree that the SORP should require the opening balance on the Revaluation Reserve at 1 April 2007 to be zero?

Agree. In the event that the panel agree to adopt an alternative approach we would ask for the implementation to be delayed for a further 12 months.

Q30 If not, what practical method should be used to establish the opening balance on the Revaluation Reserve?

N/A

5 LEGISLATIVE DEVELOPMENTS – LOCAL AREA AGREEMENT GRANT

CONSULTATION QUESTIONS – LOCAL AREA AGREEMENT GRANT

Q31 Do you agree that where the Accountable Body in substance controls the award of LAA grant to others all grant receivable from Central Government and awarded to others should be recognised as income and expenditure of the Accountable Body?

Agree

Q32 Do you agree that where the Accountable Body does **not** in substance control the award of grant to others, the accountable body should not recognise all the LAA grant channelled through the authority as income but only such grant as is awarded to it?

Agree

Q33 Do you agree that where amounts of LAA Grant has or may become repayable to Central Government:

- where a formal requirement to repay a known amount exists a creditor should be recognised?

Agree

- where it is probable but not certain that a repayment will be required or if the amount of the repayment is not known with certainty, provision should be made?

Agree, subject to materiality

- where it is virtually certain that the Accountable Body will be able to recover some or all of any monies it is required to repay it should recognise a debtor for the recovery?

Agree.

- where recovery is probable a contingent asset should be disclosed?

Agree, subject to materiality.

Q34 Do you agree that allocations of LAA Grant receivable from the Accountable Body that are recognisable as income should be accounted for on an accruals basis in accordance with paragraphs 3.32 to 3.34 of the SORP?

Agree

Q35 Do you agree that LAA Grant is a specific grant but is likely to relate to more than one local authority service?

Agree

Q36 Do you agree that LAA Grant transactions recognised in revenue should be apportioned between the services that are funded by the grant?

Agree

Q37 Do you agree that the following disclosures on Local Area Agreements should be included as a note to the core financial statements?

"Sufficient information on Local Area Agreements to allow for the understanding of the authority's financial affairs. As a minimum this includes the purpose of the LAA, the identities of partner bodies, the name of the Accountable Body, the total amount of LAA Grant received under the LAA and the amount of LAA Grant received by the authority."

Agree

6 CHARITABLE TRUSTS CONSOLIDATED INTO THE GROUP ACCOUNTS OF A LOCAL AUTHORITY

CONSULTATION QUESTIONS – CHARITABLE TRUSTS CONSOLIDATED INTO THE GROUP ACCOUNTS OF A LOCAL AUTHORITY

These questions are not relevant to Tonbridge and Malling Borough Council.

Q38 Do you agree that the disclosure of charitable trust assets and liabilities consolidated into group accounts needs to be improved?

Q39 Do you agree that new paragraph 5.14a above should be added to the Group Accounts chapter of the SORP? If you do not agree, what do you propose should be done to improve the disclosure of charitable trust assets and liabilities consolidated into group accounts?

Q40 Do you agree that new note (h) above should be added to the information to be disclosed in the notes to the Group Accounts?

7 NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS SUPERANNUATION SCHEME

These questions are not relevant to Tonbridge and Malling Borough Council.

Q41 Do you agree that the classification of the Northern Ireland Local Government Officers Superannuation Scheme should be changed to a defined benefit scheme to be accounted for in accordance with the accounting policies set out in paragraphs 3.71 – 3.78 and appendix F of the SORP? Please give your reasons why you think this change should or should not be made.

Q42 Do you agree that if the classification is changed the amendment should be implemented in 2007-08? If you consider that the change should be deferred please give your reasons.

Q43 Do you agree that if the classification is changed it should this be treated as a material prior period adjustment?

8 APPICABILITY OF THE SORP

CONSULTATION QUESTIONS – APPLICABILITY OF THE SORP

Q44 Do you agree with the proposed above amendments to the paragraphs that deal with the 'Applicability of the SORP'?

Agree