b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.6.1 to 6.5.6.6 shall be prepared:

a) the Firefighters' Pension Scheme for England

b) the Firefighters' Pension Scheme for Wales

c) the Police Pension Scheme in England and Wales.

Valuation of financial instruments

6.5.2.4 IAS 26 is a very old standard dating back to 1988 and one of its provisions is incompatible with the much more recently issued IAS 19. IAS 26 includes an option to carry securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific part thereof 'at amounts based on their ultimate redemption value assuming a constant rate to maturity'. IAS 19 does not permit this and the option shall not be used under the Code.

6.5.2.5 IAS 26 requires marketable securities to be carried at market value; the Code clarifies that the market value that shall be used is the bid price in accordance with the provisions of IAS 39 *Financial Instruments Recognition and Measurement* for determining the fair value of financial instruments.

Analysis of investment assets and income

6.5.2.6 Paragraph 35 of IAS 26 requires the net assets available for benefit at the end of the period to be 'suitably classified'. In order to ensure comparability between different local authority pension fund disclosures in this key area, requirements based on the *Financial Reports of Pension Schemes – A Statement of Recommended Practice* (Pension SORP) have been included. For similar reasons, an analysis of investment income based on the Pension SORP has been adopted by the Code to ensure authorities also disclose comparable information in this area.

Additional voluntary contributions

6.5.2.7 The matter of additional voluntary contributions (AVCs) paid by members and separately invested outside the pension fund is not covered by IAS 26. The Code requires note disclosure of such AVC transactions. The Code note is based on the similar 2009 SORP disclosure.

Actuarial present value of promised retirement benefits

6.5.2.8 IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the 'defined benefit obligation'. IAS 26 permits the valuation to be based on either current salary levels or projected salary levels. IAS 19 (and the Code) requires projected salary levels to be used when measuring the defined benefit obligation of an employer. Therefore, for consistency between what the employers participating in a pension fund disclose in their Statements of Accounts, and what the pension fund discloses as the 'defined benefit obligation' for the pension fund accounts as a whole, the option to use current salary levels is not permitted when measuring the actuarial present value of promised retirement benefits of a pension fund.

6.5.2.9 IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. However, it gives three options for disclosure:

Option A – in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit

Option B – in the notes to the accounts

Option C – by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS 26 requires the most recent valuation (which should be based on IAS 19, not the pension fund's funding assumptions) to be used as a base and the date of the valuation disclosed.

6.5.2.10 In the Code Board's view, it would be unhelpful to present as a surplus or deficit on the pension fund an amount derived by comparing the pension fund's assets at the Balance Sheet date with its pension liabilities at an earlier date. Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the Balance Sheet date. However, Option A does not require a full actuarial valuation to be undertaken every year; the same actuarial techniques for rolling forward the last full triennial actuarial revaluation used to estimate individual employers' IAS 19 pension liabilities between triennial revaluations may be used.

6.5.2.11 There is a general requirement under IFRS to disclose matters that are material to an understanding of the financial position and financial performance of an entity, as well as specific requirements in IFRS 7 to report on the risks to which financial instruments expose the entity. With regard to this, investments in non-sterling securities are subject to extra risk in the form of exchange rate risk; and stock lending is in the nature of a trading activity rather than an investing activity, and entails counter-party default risks. Note disclosures concerning these have been included in the Code.

6.5.3 Accounting Requirements (Excluding Police and Fire and Rescue Service Pension Funds)

6.5.3.1 Pension funds may be either defined contribution funds or defined benefit funds. Defined contribution funds, if they occur at all, are rare in local authorities: all the pension schemes in which significant numbers of local authority employees participate provide pension benefits on a defined benefit basis. Defined contribution pension funds are not covered in detail by the Code; should they occur the requirements of IAS 26 shall be followed.

Valuation of plan assets for all plans

6.5.3.2 Pension fund investments shall be carried at fair value. In the case of marketable securities, fair value shall be market value and the current bid price shall be used.

Defined benefit pension funds

6.5.3.3 The objective of reporting by a defined benefit pension fund is periodically to provide information about the financial resources and activities of the pension fund that is useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those benefit obligations over time.

6.5.3.4 The financial statements of a defined benefit pension fund shall contain:

a) A **fund account** disclosing changes in net assets available for benefits. Where presentation Option A (see paragraph 6.5.2.9) is followed the change in the actuarial present value of promised retirement benefits for the period and the resulting surplus or deficit for the period is also shown.

b) A **net assets statement** showing the assets available for benefits at the year end. Where presentation Option A (see paragraph 6.5.2.9) is followed, the actuarial present value of promised retirement benefits and the net pension liability or asset at the period end is also shown.

c) **Notes to the accounts**.

Fund Account

***Note**: the major categories are indicated in bold. The unbolded items may be analysed in the notes to the accounts, if not shown on the face of the Fund Account or Net Assets Statement.*

Contributions

- Employer contributions
- Member contributions

Transfers in from other pension funds

Other income

Benefits

- Pensions
- Commutation of pensions and lump sum retirement benefits
- Purchased annuities
- Lump sum death benefits

Payments to and on account of leavers

Other payments

Administrative expenses

Investment income

- Interest from fixed interest securities
- Dividends from equities
- Income from index-linked securities
- Income from pooled investment vehicles
- Net rents from properties
- Interest on cash deposits
- Share of profit/losses from associates and joint ventures
- Income from derivatives
- Other (for example stock lending or underwriting)

Profit and losses on disposal of investments and changes in value of investments

Taxes on income

Net increase (decrease) in the net assets available for benefits during the year

Note: only where presentation Option A has been adopted (see paragraph 6.5.2.9) also show the following.

Change in actuarial present value of promised retirement

- Vested benefits
- Non-vested benefits

Surplus/(deficit) on the pension fund for the year

Net Assets Statement

Investment assets

- Fixed interest securities (analysed between public sector and other)
- Equities (including convertible shares)
- Index-linked securities (analysed between public sector and other)
- Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and other managed funds (including open-ended investment trusts, OEICSs, and assets held in limited liability – partnerships), showing separately those funds invested in property)
- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Property
- Insurance policies (with profit contracts, unitised with-profits contracts and annuity and deferred annuity contracts)
- Loans
- Other investments (such as works of art)
- Cash deposits (including fixed term deposits, certificates of deposit, floating rate notes and other cash instruments)
- Other investment balances (such as debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, accrued dividend entitlements and recoverable withholding tax, suitably analysed where material)

Investment liabilities

- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)

Borrowings

- Sterling
- Foreign currency

Current assets

- Contributions due from employers
- Other current assets
- Cash balances (not forming part of the investment assets)

Current liabilities

- Unpaid benefits
- Other current liabilities (such as accrued expenses, other than liabilities to pay pensions and other benefits in the future)

Net assets of the scheme available to fund benefits at the period end

Note: only where presentation Option A has been adopted (see paragraph 6.5.2.9) also show the following.

Actuarial present value of promised retirement

- Vested benefits
- Non-vested benefits

Net pension liability or asset at the period end

6.5.4 Statutory Accounting Requirements for Defined Benefit Pension Funds (Excluding Police and Fire and Rescue Services Pension Funds)

6.5.4.1 There are no statutory accounting requirements for defined benefit pension funds (excluding Police and Fire and Rescue Service Pension Funds).

6.5.5 Disclosures for Defined Benefit Pension Funds (Excluding Police and Fire and Rescue Services Pension Funds)

6.5.5.1 The financial statements of a defined benefit retirement benefit fund (excluding police and fire and rescue services pension funds) shall contain the following information, if applicable and if not disclosed on the face of the financial statements:

a) A description of the fund and the effect of any changes in the fund during the period.

b) A summary of significant accounting policies.

c) Assets at the end of the period suitably classified (see paragraph 6.5.3.4 for the minimum requirements).

d) The basis of valuation of assets for each significant class of asset.

e) Where investments are held for which an estimate of fair value is not possible, disclosure shall be made of the reason why fair value is not used.

f) A reconciliation between the opening and closing value of investments analysed into meaningful categories such as by major asset class, named investment managers or

investment strategy. For investments that have purchase costs or sale proceeds, the total amount of sales and purchases should be disclosed. For derivatives, the nature of the amounts included in purchases and sales should be explained.

g) The market value (current bid price for quoted securities and unitised securities) of the assets (at the Balance Sheet date) which were under the management of fund managers should be disclosed, as should the proportion managed by each manager. Where a market value is not available, assets should be valued at fair value in accordance with the valuation basis specified by the Code.

h) An analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.

i) The amount of sales and purchases of investment assets should be disclosed including the market value of futures and options at the Balance Sheet date (if any).

j) A breakdown of derivative contracts by their main types including futures, options, forward foreign exchange contracts and swaps. A summary of the key terms and notional amount of the derivative contracts held at the year end. An explanation of the objectives and policies for holding derivatives and the strategies for achieving those objectives that have been followed during the period.

k) The effective date of revaluation of property assets; whether an independent valuer was used; the methods and significant assumptions applied in estimating the fair value; the extent to which the item's fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's-length terms or were estimated using other valuation techniques.

l) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.

m) Liabilities other than the actuarial present value of promised retirement benefits.

n) A description of the funding policy, ie the basis upon which the contribution rate has been set for both the administering and the scheduled body.

o) An indication of the actuarial position of the fund, including the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for funding the promised benefits.

p) A description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.

q) The total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies and admitted bodies.

r) Information in respect of material transactions with related parties, not disclosed elsewhere, including investments and loans made at any time during the period.

s) The total amount of stock released to a third party under a stock lending arrangement within a regulated market at the period end, together with a description of the related collateral.

t) The amount and nature of any material contingent assets, liabilities and contractual commitments of the scheme at the period end. Details of any material non-adjusting events occurring subsequent to the period end.

u) The amount of additional voluntary contributions paid by members during the year and the value at the Balance Sheet date of separately invested additional voluntary

contributions. It should be disclosed that these amounts are not included in the pension fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

6.5.6 The Police Pension Scheme in England and Wales and the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales

6.5.6.1 The Police Pension Scheme in England and Wales and the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales are unfunded but authorities do not meet the pension outgo directly: rather they pay an employer's pension contribution based on a percentage of pay into the pension fund.

6.5.6.2 Subject to scrutiny and approval by the Secretary of State/Minister and Parliament/Welsh Assembly Government, central government pays pension top-up grant for the year up to the amount by which the amount payable from the pension fund for the year exceeded the amount receivable. The current expectation is that top-up grant of 100% of the deficit will be paid. Where the amounts receivable by the pension fund for the year exceeds the amounts payable, the surplus on the pension fund is payable to central government.

6.5.6.3 While the funding arrangements for the police and firefighters' pension schemes are similar, the regulations governing the police and firefighters' schemes funding arrangements are different with regard to the way the surplus or deficit on the pension fund for the year is funded.

Police Pension Scheme

6.5.6.4 The funding arrangements for police pension funds are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, ie the amount receivable by the pension fund for the year is less than the amount payable, the amount required to meet the deficit must be transferred from the police authority to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the police authority in the form of a top-up grant paid by central government (the current expectation is that 100% grant will be paid). Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the police authority, which in turn is required pay the amount to central government.

Firefighters' Pension Scheme

6.5.6.5 The funding arrangements for the Firefighters' Pension Scheme for England are contained in the *Firefighters' Pension Scheme (Amendment) (England) Order 2006* (SI 2006/1810). The funding arrangements for the Firefighters' Pension Scheme for Wales are contained in Part 13 of the Firefighters' Pension Scheme (Wales) Order 2007 (WSI 2007/1072). These orders require that every amount paid or repaid to or by an authority shall be credited or, as the case may be, debited, to their firefighters' pension fund. Therefore where the pension shows a deficit for year, the top-up grant is payable to the pension fund. Conversely, if the fund is in surplus for the year, an amount equal to the surplus is payable by the pension fund to central government. If the pension fund account is not balanced to nil by pension top-up

grant receivable or by the amount payable to central government, the pension fund should be balanced to nil by a supplementary contribution from the authority to the pension fund or by the pension fund returning contribution to the authority.

6.5.6.6 The minimum presentation and disclosure requirements for police pension funds and firefighters' pension funds in England and Wales are shown below.

Information to be included in the pension fund accounting statements of police authorities and fire and rescue service authorities in England and Wales

(The amounts that must be debited and credited to the Pension Fund Account are specified by regulation. There are separate regulations for the Police Pension Scheme for England and Wales and the Firefighters' Pension Scheme for England and the Firefighters' Pension Scheme for Wales. The underlying principles are broadly the same for the three schemes but the details of the way the amounts are determined may vary and the amounts should be determined in accordance with the relevant regulations in force for the financial year.)

Fund Account

Contributions receivable

from employer

normal

early retirements

other (specify, eg reimbursement of unabated pensions of '30+' police officers)

from members

Transfers in

individual transfers in from other schemes

other (specify)

Benefits payable

pensions

commutations and lump sum retirement benefits

lump sum death benefits

other (specify)

Payments to and on account of leavers

refunds of contributions

individual transfers out to other schemes

other (specify)

(For Firefighters' Pension Schemes) Sub-total: Deficit/Surplus for the year before top-up grant receivable/amount payable to central government

(For Police Pension Schemes) Sub-total for the year before transfer from the police authority of amount equal to the deficit or transfer of an amount equal to the surplus to police authority

(For Firefighters' Pension Schemes) Top-up grant receivable/amount payable to central government

(For Police Pension Schemes) Additional funding payable by police authority to meet deficit/amount payable to police authority in respect of the surplus for the year

Net amount payable/receivable for the year

Net Assets Statement

Current assets

contributions due from employer

(for Firefighters' Pension Scheme) pension top-up grant receivable from central government

(for Police Pension Scheme) funding to meet deficit receivable from police authority

other current assets

Current liabilities

unpaid pension benefits

(for Firefighters' Pension Scheme) amount payable to central government

(for Police Pension Scheme) surplus for year payable to police authority

other current liabilities (other than liabilities to pay pensions and other benefits in the future)

Information to be disclosed in notes to the Pension Fund Accounts of police authorities and FRSAs in England and Wales

a) (For Firefighters' Pension Funds) A general description of the fund's operations including the fact that there are no investment assets and that the fund is balanced to nil each year by receipt of pension top-up grant from central government if there is a deficit or by paying over the surplus to central government, together with an explanation of how the fund is administered and managed.

b) (For Police Pension Funds) A general description of the fund's operations including the fact that there are no investment assets and that if there is a deficit for the year the fund is balanced to nil by the police authority transferring an amount equal to the deficit to the pension fund, which it recoups from central government, or if there is a surplus for the year by transferring the surplus from the pension fund to the police authority, which it pays over to central government, together with an explanation of how the fund is administered and managed.

c) The accounting policies followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund together with the estimation techniques adopted that are significant.

d) An explanation that the fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on where details of the authority's long-term pension obligations can be found in the main statements shall be disclosed.

CHAPTER SEVEN

Financial instruments

7.1 INTRODUCTION, SCOPE, RECOGNITION AND INITIAL MEASUREMENT, HEDGE ACCOUNTING, DERIVATIVES AND EMBEDDED DERIVATIVES AND DEFINITIONS

7.1.1 Introduction

7.1.1.1 Authorities shall account for financial instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement,* IAS 32 *Financial Instruments: Presentation* and FRS 7 *Financial Instruments: Disclosures*, except where interpretations or adaptations to fit the public sector are detailed in the Code. The transitional provisions contained in paragraphs 103 to 108c of IAS 39 shall not be used. The 2007 SORP adopted FRS 26 *Financial Instruments: Recognition and Measurement,* FRS 25 *Financial Instruments: Presentation* and the predecessor of FRS 29 *Financial Instruments: Disclosures* in the 2007 SORP. These UK standards are converged with the international standards and it would be inappropriate to make use of the international standards' transitional provisions on adopting international standards in the 2010 Code. Where they continue to be relevant the transitional provisions of the UK standards adopted by the 2007 SORP remain. In particular, recognition and derecognition decisions prior to 1 April 2006 need not be reconsidered.

Interpretation and adaptation for the public sector context

7.1.1.2 The following interpretations or adaptations have been adopted by the Code:

a) 'Regular way' trades of financial assets

IAS 39 permits ether 'trade date' or 'settlement date' accounting to be used for 'regular way' trades of financial assets. This discretion is not permitted by the Code. The trade date rather than the settlement date shall be used to recognise the regular way purchase or sale of a financial asset (see paragraphs 7.1.3.4 and 7.1.3.5 for the detailed requirements).

b) Designation of the category of a financial instrument

Under IAS 39, subject to restrictions, it is in certain circumstances permitted to 'designate' a financial instrument to a different category to the one to which it would inherently belong under IAS 39. The Code does not permit such designations (see paragraph 7.1.5.3).

c) Soft loans advanced by an authority – 'prevailing interest rate'

The Code provides guidance on estimating the 'prevailing interest rate' that a borrower to whom it has advanced a 'soft loan' could have borrowed in an arm's-length transaction (see paragraph 7.1.4.5 for the detailed requirements).

d) Soft loans received by an authority 'prevailing interest rate'

For the purposes of calculating the fair value on initial recognition of a soft received by a local authority, the Code provides an interpretation of how the 'prevailing interest rate' at which it could have borrowed in an arm's-length transaction shall be determined (see paragraph 7.1.4.10).

e) Lender Option Borrower Option Loans (LOBOs)

The Code requires:

- options embedded in a LOBO shall not be separately accounted for unless after considering the contractual terms of the instrument the authority concludes that IAS 39 would require the embedded options to be accounted for separately (see paragraph 7.1.6.9)
- the contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition, unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows or expected life (see paragraph 7.2.2.8).

f) Accounting for immaterial transaction costs on initial recognition

The Code gives an option to write off immediately to Surplus or Deficit on the Provision of services transaction costs that the Code would usually require to be applied to adjust a financial instrument's initial carrying amount, where they are immaterial.

g) Exchanges of debt instruments

The Code (and IAS 39) requires, under defined circumstances, the gain or loss on an exchange of debt instruments between an existing borrower and lender to be used to adjust the carrying amount, rather than be recognised immediately in Surplus or Deficit on the Provision of Services. The Code has interpreted this as requiring the exchange of loan instruments and associated settlement of any fees or costs incurred to take place on the same day and as not requiring net settlement as long as any payments between the lender and the borrower are made on the same day. Overwhelmingly the main lender to local authorities is the Public Works Loan Board (PWLB), which is not permitted to settle these amounts net but must receive payment of the agreed settlement amount of the original loan.

Statutory accounting requirements

7.1.1.3 There are statutory accounting requirements regarding:

a) soft loans (ie loans at nil or below prevailing interest rates) advanced by a local authority, which is covered in paragraphs 7.1.4.6 to 7.1.4.8)

b) premiums paid or discounts received on the early repayment of loan debt, which is covered in Code paragraphs 7.2.3.5 and 7.2.3.6

c) acquisition and disposal of share and loan capital within the scope of the statutory capital controls framework, which are covered at paragraph 7.2.3.7

d) impairment of financial assets, which is covered in paragraphs 7.3.3.10 and 7.3.3.11.

Disclosure requirements

7.1.1.4 Financial instrument disclosure requirements can be found in paragraphs 7.4.2.1 to 7.4.3.9.

Statutory disclosure requirements

7.1.1.5 There are no statutory disclosures required in relation to financial instruments.

Changes since SORP 2009

7.1.1.6 There have been no changes in accounting requirements since SORP 2009.

What the section and chapter covers

7.1.1.7 This first section of chapter seven on financial instruments covers:

a) scope of the financial instruments standards and this Code chapter

b) initial recognition and measurement of financial instruments

c) classification of financial instruments

d) hedge accounting

e) derivatives and embedded derivatives

f) definitions of the key terms used in the chapter.

Chapter seven contains three further sections covering:

- Section 2 – Accounting for financial liabilities after initial recognition
- Section 3 – Accounting for financial assets after initial recognition
- Section 4 – Presentation and disclosures.

7.1.2 Types of Financial Instruments covered by the Chapter

7.1.2.1 A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives. Typical financial instruments are:

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees

Assets

- bank deposits
- trade receivables
- loans receivable
- other receivables and advances
- investments

Derivatives

- swaps
- forwards
- options

Embedded derivatives

- debt instruments with embedded swaps
- debt instruments with embedded options.

Scope exclusions

7.1.2.2 Some types of financial instrument covered by IAS 39 are not covered in detail by the Code because they are not relevant to entities that do not issue equity instruments. The applicable IFRS shall be followed if circumstances were such that the provisions concerning equity instruments became relevant, eg in group accounts (see Code chapter nine – Group Accounts). This Code chapter does not cover the following types of financial instrument since they are within the scope of other accounting standards rather than IAS 39 and are dealt with elsewhere in the Code. These are:

a) Interests in subsidiaries, associates and joint ventures, which are covered by Code chapter nine – Group Accounts.

b) Rights and obligations under leases, which are covered by section 4.2 of the Code, except for lessors' lease receivables with respect to the derecognition and impairment provisions of this chapter; lessees' lease payables with respect to the derecognition provisions; and derivatives that are embedded in leases.

c) Employers' rights and obligations under employee benefit plans, which are covered by Code chapter six.

d) Loan commitments, unless they can be settled net or there is a past practice of selling the resulting loans shortly after origination or the commitment is to provide at below market interest rate. However, all loan commitments are subject to the derecognition provisions of this chapter. Loan commitments not within the scope of this chapter (and IAS 39) shall (where onerous) be accounted for in accordance with the provisions of section 8.2 of the Code and IAS 37 on onerous contracts (paragraphs 66 to 69 of IAS 37 refer).

e) Contracts to buy or sell non-financial items (eg commodity futures contracts) are outside the scope of this chapter unless they can be settled net and are not entered into and held for the purposes of the receipt or delivery of a non-financial item in accordance with the authority's expected purchase, sale or usage requirements.

f) Financial instrument contracts and obligations under share-based transactions to which Code Appendix A, paragraph A.1.6 applies.

g) Rights and obligations arising under an insurance contract as defined in IFRS 4 *Insurance Contracts* other than a financial guarantee contract that meets the definition of a financial guarantee contract under paragraphs 7.2.4.1 to 7.2.4.4 of this chapter of the Code.

h) Rights to receive reimbursement of expenditure required to be made to settle a liability recognised as a provision in accordance with section 8.2 of the Code, or for which in an earlier period, was recognised as a provision.

i) Special considerations apply in respect of receivable and payables arising from non-exchange transactions such as council tax (see sections 5.3 and 8.1 of the Code).

7.1.3 Initial Recognition of a Financial Instrument

7.1.3.1 A financial asset or liability shall be recognised in the Balance Sheet when, and only when, an authority becomes a party to the contractual provisions of the instrument. In the case of a financial asset or a derivative, this is when the purchaser becomes committed to the purchase (ie the contract date) and is usually referred to as the *'trade date'*. The sale of a financial asset is also recognised on the trade date. Trade receivables are an exception. The receivable is not recognised when an authority becomes committed to supply the good or service but when the ordered goods or services have been delivered or rendered (see section 5.3 of the Code for further details). Similarly a trade payable is recognised when the ordered goods or services have been received (see section 8.1 of the Code for further details).

7.1.3.2 In the case of a financial liability an authority does not become a party to the contractual provisions of a financial liability unless one of the parties has performed. For example a loan debt contract is recognised by the borrower when the cash lent is received rather than when the authority became committed to the loan agreement; and a trade payable is recognised when the ordered goods or services have been received.

7.1.3.3 For the vast majority of financial instruments, the recognition point will be obvious. However, in the case of complex instruments where the amounts receivable or payable are conditional, it may require careful analysis to determine when the holder became a party to the contractual provisions, and in such cases the recognition point shall be determined in accordance with IAS 39. Paragraph 14 of IAS 39 and the application guidance contained in paragraphs AG34 and AG35 of IAS 39 are of key relevance.

Regular way trades of financial assets

7.1.3.4 IAS 39 permits one exception to the requirement to recognise or derecognise a financial asset on the trade date. This concerns *'regular way'* trades of financial assets. A regular way trade is one where the contract for the purchase or sale of a financial asset has terms that require delivery of the asset and payment of the consideration within an established timeframe for the marketplace concerned. Because of the short duration between the trade date and settlement date, such regular way contracts are not recognised as derivative contracts under the Code between the trade date and the settlement date but are accounted for in a manner consistent with the way the asset will subsequently be measured, ie depending on classification. The main example of this would be the purchase or sale of securities on a stock exchange.

7.1.3.5 IAS 39 permits ether *trade date* or *settlement date* accounting to be used. However, this discretion is not permitted by the Code. The *trade date* rather than the *settlement date* shall be used to recognise the regular way purchase or sale of a financial asset. Under trade date accounting, the asset to be received and the related obligation to pay for it shall be recognised on the date that the contract is entered into. Similarly, the asset that is sold is derecognised on the date the contract is entered into; and the gain or loss on disposal, and the receivable from the buyer for the proceeds, are recognised on this date.

7.1.4 Initial Measurement of Financial Instruments

7.1.4.1 Financial assets and liabilities shall be measured initially at fair value less, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include internal administrative costs.

7.1.4.2 Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of the fair value is the transaction price (ie the consideration), and unless the transaction was not at arm's-length, this should be the value used. However, if the transaction is not based on market terms, a valuation technique shall be used to determine the appropriate fair value for initial recognition of the instrument. Typical examples of transactions that might not be made on market terms are:

- interest free or low interest loans advanced by an authority (commonly to local voluntary sector organisations) which are often referred to as soft loans
- soft loans made by a local authority to subsidiary bodies consolidated into their group accounts
- soft loans received by local authorities (perhaps from government agencies or European Economic Community agencies).

Soft loans advanced

7.1.4.3 The fair value of a loan advanced at nil interest rate or below the prevailing market rate shall be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. The sum by which the amount lent exceeds the fair value of the loan shall be charged to Surplus or Deficit on the Provision of Services as grant expenditure.

7.1.4.4 In subsequent accounting the loan's effective interest rate (ie the interest used to determine the net present value of the soft loan) shall to be used to determine the amortised cost of the loan. This will result over the term of the loan in the carrying amount of the loan being written up to the amount it would have been immediately before repayment if it had not been accounted for as a soft loan; and interest income being credited to Surplus or Deficit on the Provision of Services over the term of the loan in excess of the contractual interest equal to the write-down of the soft loan on initial recognition.

7.1.4.5 It may be difficult to identify the prevailing rate of interest appropriate to the borrower in some cases. An acceptable approach to determining the prevailing interest rate would be to base it on the authority's borrowing cost plus an allowance for the risk that the loan will not be fully repaid (ie the credit risk). Authorities may use other reasonable approaches to determining the prevailing interest rate.

Regulation/statutory guidance on soft loans advanced by an authority

7.1.4.6 Soft loans advanced by a local authority are covered by regulations or statutory guidance (see part 2 of Appendix B for the legislative basis). Northern Ireland has not regulated on

the matter. The regulations for England and Wales cover both soft loans on an authority's Balance Sheet on 31 March 2007 and soft loans advanced after 31 March 2007. The statutory guidance for Scotland covers only soft loans on an authority's Balance Sheet on 31 March 2007. The regulations for England and Wales provide that the amount taken to the General Fund in respect of all soft loans should be the contractual interest receivable. This is also the case in Scotland for loans that were on the Balance Sheet at 31 March 2007 but not for soft loans originated after 31 March 2007.

7.1.4.7 The difference between the amount charged or credited to Surplus or Deficit on the Provision of Services in accordance with the Code and the interest income (if any) required under the England, Wales and Scotland regulations/statutory guidance to be credited to the General Fund shall be debited or credited to the General Fund Balance with the double entry going to the Financial Instruments Adjustment Account such that the General Fund records the amount required by the applicable regulations or statutory guidance.

7.1.4.8 Reference is made in paragraphs 7.1.4.6 and 7.1.4.7 above and elsewhere in this chapter to amounts required to be taken to the General Fund Balance. For clarity reference to General Fund Balance includes the Housing Revenue Account Balance and requires the amount to be apportioned appropriately between the General Fund and Housing Revenue Account if an HRA is maintained.

Soft loans made to a subsidiary

7.1.4.9 Local authorities may sometimes make soft loans to subsidiary bodies consolidated into their group accounts. As with other soft loans the fair value shall be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. However, the write-down to fair value shall not be taken to Surplus or Deficit on the Provision of Services as in substance this is an additional investment by the local authority into its subsidiary. The difference between the loan amount and the fair value of the loan shall be accounted for as an investment in an authority's single entity Statement of Accounts.

Soft loans receivable

7.1.4.10 The fair value of the loan shall be determined as the net present value of the future cash payments discounted using the prevailing market rate of interest at which the authority could borrow for a loan with similar terms. The PWLB interest rate for a loan with similar terms shall be used to estimate the prevailing market rate of interest except where the authority can provide reliable evidence that it would be able to borrow at a lower rate of interest from another lender on arm's-length terms. This will result in a lower figure for the fair value of the liability than the loan received; the difference shall be taken to Surplus or Deficit on the Provision of Services as grant receivable in accordance with section 2.3 of the Code.

7.1.4.11 Subsequent accounting will require the loan's effective interest rate to be used, which will be the same as the interest rate used to determine the net present value of the loan. This will result over the term of the loan in the carrying amount of the loan being written up to the amount it would have been if it had not been accounted for as a soft loan and interest expense over and above the contractual interest payable. The amount in excess of the

contractual interest payable would be equal to the write-down of the carrying amount of the soft loan to fair value on initial recognition.

7.1.5 Classification of Financial Instruments

Overview of classifications

7.1.5.1 The accounting treatment of a financial instrument subsequent to initial recognition depends on its classification on initial recognition. IAS 39 recognises four classes of financial asset and two classes of financial liability:

Financial assets

- fair value through profit or loss
- loans and receivables
- available for sale
- held to maturity

Financial liabilities

- fair value through profit or loss
- amortised cost

7.1.5.2 There is also one type of financial asset that falls outside the regular classifications above, which is an *equity instrument for which a reliable fair value cannot be determined*.

Designation of the category of a financial instrument

7.1.5.3 Under IAS 39, subject to restrictions, it is in certain circumstances permitted to 'designate' a financial instrument to a different category to the one to which it inherently belongs. For example, designation of available-for-sale financial assets to at fair value through profit or loss, or alternatively to as held to maturity, are common 'designations'. The Code does not permit authorities to 'designate' financial instruments since it would make different authorities' financial statements less comparable. All financial instruments should be classified on initial recognition in accordance with their inherent characteristics. Under IAS 39, held to maturity is an entirely discretionary category of financial asset, ie it is one to which qualifying financial assets are permitted to be designated but no financial asset is required to be classified. Since the Code does not permit designation, no financial assets shall be classified as held to maturity.

Loans and receivables

7.1.5.4 If a financial asset meets the requirement to be classified as loans and receivables it shall be classified as loans and receivables. Loans and receivables have two defining characteristics.

They:

- have fixed or determinable payments, and
- are not quoted in an active market.

7.1.5.5 An equity instrument cannot be categorised as loans and receivables since it does not have fixed or determinable payments. A financial instrument is regarded as quoted in an active

market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transaction on an arm's-length basis.

7.1.5.6 Usually loans and receivables arise when money, goods or services are provided to a debtor with no intention of trading the receivable. However, financial assets that have been acquired rather than originated by an authority can also be loans and receivables. A loan asset acquired as a participation in a loan from another lender shall also be included in this category, as shall loan assets purchased by the authority that would otherwise meet the definition.

Available for sale

7.1.5.7 All financial assets that are not required by the Code to be classified as at fair value through profit or loss or as loans and receivables should be classified as available for sale. The available-for-sale category includes:

- equity investments other than those for which a reliable fair value cannot be determined (unless required to be accounted for under chapter nine of the Code)
- other investments traded in an active market.

Financial liabilities at amortised cost

7.1.5.8 Financial liabilities at amortised cost constitute the residual category similar to the available-for-sale category of financial assets. All liabilities other than liabilities held for trading shall be classified automatically into this category.

Financial assets and liabilities at fair value through profit or loss

7.1.5.9 The category at fair value through profit or loss can apply to both financial assets and financial liabilities. A financial instrument that is 'held for trading' shall be classified as at fair value through profit or loss. The definition is met if it is:

a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or

b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or

c) a derivative.

7.1.5.10 'Acquired or incurred principally for the purpose of selling or repurchasing in the near term' would usually involve frequent buying and selling of financial instruments but this is only an indication that trading may be occurring. The key test is whether financial instruments are being used with the objective of generating a profit from short-term fluctuations in price or dealer's margin. Active management of financial instruments does not necessarily amount to trading although it would be an indication of it. The application and implementation guidance contained in paragraphs AG14, AG15, B.11 and B.12 of IAS 39 shall be applied in deciding whether a financial instrument is being held for trading.

7.1.5.11 A portfolio is a group of financial instruments that are managed together. The main significance of a financial instrument being part of a portfolio is that if it is concluded that

some financial instruments within the portfolio are being held for trading, all the instruments within the portfolio shall be classified as held for trading.

7.1.5.12 The Code in accordance with IAS 39 requires derivatives to be regarded as 'held for trading' irrespective of the purpose for which the entity holds the instrument. Derivatives are covered in more detail in paragraphs 7.1.6.1 to 7.1.6.5).

7.1.6 Derivatives and Embedded Derivative

Derivatives

7.1.6.1 All derivatives not accounted for under hedge accounting shall be classified as at fair value through profit or loss and changes in fair value shall be recognised in Surplus or Deficit on the Provision of Services. Derivatives that are part of an effective cash flow or net investment hedging relationship are not covered in detail by the Code and shall be accounted for in accordance with the hedge accounting requirements of IAS 39.

7.1.6.2 A derivative is a financial instrument with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')

b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and

c) it is settled at a future date.

7.1.6.3 Typical examples of derivatives are futures and forwards, swap and option contracts. Many derivatives are settled net rather than by delivery of the underlying financial instrument but derivatives include contracts that are settled gross by delivery of the underlying financial instrument such as a forward contract to purchase a security. The application guidance contained in paragraphs AG9 to AG12a of IAS 39 shall be applied when considering whether a financial instrument is a derivative.

Forward purchase contract

7.1.6.4 Although it is understood to be rare for local authorities to hold derivatives to a significant extent it is understood some authorities use forward contracts to purchase investment assets. Such forward contracts are 'derivatives' between the trade and settlement date and therefore shall be classified as at fair value through profit or loss.

7.1.6.5 On the trade date the fair value of the derivative will be nil but if the fair value of the 'underlying' (ie the financial asset) increases the derivative will have a positive value and if it decreases it will have a negative value. The derivative is settled on the settlement date by the delivery of the financial asset and payment of the consideration. The financial asset shall be recognised at fair value on the settlement date. The difference between the fair value on the settlement date and consideration paid under the forward contract (ie the gain or loss on the

forward contract derivative) shall be taken to Surplus or Deficit on the Provision of Services. If a forward contract is open at the year-end, the gain or loss on the forward contract is taken to Surplus or Deficit on the Provision of Services. If the forward contact has a positive value it is shown as a financial asset in the Balance Sheet. If it has a negative value it is shown as a financial liability in the Balance Sheet.

Embedded derivatives

7.1.6.6 Some financial instruments are hybrid, in that for accounting purposes they are considered to comprise a non-derivative host contract that contains an embedded derivative. An embedded derivative causes some or all of the cash flows that would otherwise be required by the contract to be modified. Some embedded derivatives are required to be separated from the host contract and accounted for as derivatives. Other embedded derivatives are not required to be separated from the host contract and the instrument should be accounted for as a single financial instrument. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

7.1.6.7 An embedded derivative shall be separated from the host contract and accounted for as a derivative under the Code if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated the host contract shall be accounted for under this chapter if it is a financial instrument, and in accordance with other appropriate chapters of the Code if it is not a financial instrument.

7.1.6.8 Eleven examples of embedded derivatives that shall or shall not be required to be separated from the host instrument and accounted for separately since the embedded derivative does not have characteristics and risks which are closely related to the host contract can be found in Section C of the implementation guidance of IAS 39. This implementation guidance shall be considered when an authority determines whether an embedded derivative is required by the Code to be separated and accounted for separately.

7.1.6.9 Many authorities have lender option borrower option loan debts, which are commonly referred to as LOBOs. The key characteristics of a LOBO are that the host contract is a loan with the rate of interest payable specified for the whole term of the contract. However, there is an option that allows the lender to increase the interest charge by any amount chosen at specified option exercise dates. If the lender increases the interest rate, the borrower has an option to repay the loan at the amount of the principal outstanding. If the borrower accepts the increased interest rate, it becomes the host contract's interest rate for the remainder of its term (subject to revision at the next option exercise date). The options embedded in a LOBO would not usually be required to be separately accounted for under IAS 39 and such

instruments shall be accounted for on this basis unless on considering the terms of the instrument the authority concludes that IAS 39 would require the options to be accounted for separately.

7.1.7 Hedge Accounting

7.1.7.1 Entities carry out hedging activities in order to limit their exposure to different financial risks such as currency risk and interest rate risk. These activities commonly consist of entering into a derivative contract with a counterparty to eliminate or limit risk. The term *hedging* refers to a risk management strategy, while hedge accounting refers to the accounting methods entities may choose to reflect hedging activities in their financial statements. Under IAS 39, application of hedge accounting is not mandatory and in principle can be chosen on a transaction-by-transaction basis.

7.1.7.2 The accepted view is that currently local authorities seldom use such hedging techniques. However, if an authority undertakes hedging activities these shall be accounted for in accordance with the requirements of IAS 39 and presented and disclosed in accordance with the requirements of IAS 32 and IFRS 7.

7.1.8 Definitions

7.1.8.1 The following terms are used in this Code with the meanings specified:

A **financial asset** is any asset that is:

a) cash

b) an equity instrument of another entity

c) a contractual right:

   i) to receive cash or another financial asset from another entity, or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

d) a contract that will or may be settled in the entity's own equity instruments and is:

   i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or

   ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments.

A **financial liability** is any liability that is:

a) a contractual obligation:

   i) to deliver cash or another financial asset to another entity, or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity

b) a contract that will or may be settled in the entity's own equity instruments and is:

i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or

ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice b) is not applicable to local authorities as they do not issue equity instruments.

An **equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

A **financial asset or financial liability at fair value through profit or loss** is a financial asset or financial liability that meets the following conditions. It is classified as held for trading. A financial asset or financial liability is classified as held for trading if it is:

a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term

b) on initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or

c) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Note: IAS 39 also permits an entity to designate financial instruments that do not meet the above tests as at fair value through profit or loss (subject to meeting certain conditions). The Code requires all financial instruments to be classified to the category to which they intrinsically belong and consequently does not permit authorities to 'designate' an instruments category.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Note: no financial assets are required to be classified as held to maturity; it is an optional 'designation' (subject to meeting strict conditions) under IAS 39. The Code does not permit financial assets to be designated as held to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, or

b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

Available-for-sale financial assets are those non-derivative financial assets that are not classified as a) loans and receivables, b) held-to-maturity investments or c) financial assets at fair value through profit or loss.

Note: The Code does not permit designation of financial instruments and therefore under the Code available-for-sale financial assets are those non-derivative financial assets not meeting the IAS 39 requirements to be classified as loans and receivables, or financial assets at fair value through profit or loss.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Definitions relating to recognition and measurement

The **amortised cost of a financial asset or financial liability** is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The **effective interest method** is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 *Revenue*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's Balance Sheet.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

A **regular way purchase or sale** is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A, paragraph AG13). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

7.2 ACCOUNTING FOR FINANCIAL LIABILITIES AFTER INITIAL RECOGNITION

7.2.1 Introduction

7.2.1.1 This section of the Code covers:

a) Subsequent measurement of the Balance Sheet carrying amount of financial liabilities.

b) Determination of the expense or income to be recognised in the Surplus or Deficit on the Provision of Services for the accounting period.

c) Financial Guarantee contracts.

7.2.1.2 The accounting treatment of a financial liability subsequent to initial recognition depends on its classification on initial recognition. The Code requires financial liabilities to be classified into one of two categories of financial liabilities (see paragraphs 7.1.5.1 and 7.1.5.8 to 7.1.5.12):

- amortised cost
- fair value through profit or loss.

7.2.2 Subsequent Accounting of Financial Liabilities carried at Amortised Cost

Amortised cost using the effective interest rate method

7.2.2.1 Amortised cost using the effective interest rate can apply to both financial liabilities and financial assets (eg loans and receivables) and the following seven paragraphs apply to both financial liabilities and financial assets carried at amortised cost.

7.2.2.2 The **effective interest method** is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

7.2.2.3 The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

7.2.2.4 Short duration receivables or payables with no stated interest rate shall be measured at original invoice amount.

7.2.2.5 The determinable cash flows of a variable rate financial instrument shall be re-estimated to reflect movements in interest paid/received on the instrument.

7.2.2.6 For most loan debts and investments there will be transaction costs and the Code requires that these are applied to adjust the financial instrument's initial carrying amount with the result that they are amortised to Surplus or Deficit on the provision of services over the life of the financial instrument. However, where judged immaterial transaction costs may be charged immediately to Surplus or Deficit on the Provision of Services.

Expected life and cash flows of a financial instrument

7.2.2.7 The effective interest rate used to determine the finance costs or income receivable of a financial instrument carried at amortised cost and its carrying amount subsequent to initial recognition is based on discounting the estimated cash flows and estimated life of the instrument rather than on its contractual cash flows and contractual life. There is a presumption that the cash flows and expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) shall be used.

7.2.2.8 A Lender Option Borrower Option (LOBO) loan would normally be such *a rare case* since at origination of the loan it would not usually be possible to estimate reliably the instrument's expected cash flows or expected life. The contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition, unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows and expected life.

Revision of expected life and cash flows of a financial instrument

7.2.2.9 If an authority revises its estimates of payments or receipts, it shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The authority recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in Surplus or Deficit on the Provision of Services. However, it should be noted that where the instrument is accounted for under the hedging accounting requirements, the revised effective interest rate is used. In such situations the matter is accounted for in accordance with IAS 39 (see paragraphs 92 and AG8 of IAS 39).

7.2.3 Derecognition of a Financial Liability

7.2.3.1 Derecognition is the term used for the removal of an asset or liability from the Balance Sheet. A financial liability shall be removed from the Balance Sheet when it is extinguished – ie when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid including any non-cash assets transferred or liabilities assumed shall be recognised in Surplus or Deficit on the Provision of Services.

Exchange between an existing borrower and lender

7.2.3.2 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

7.2.3.3 However, where the terms of the loan debt exchanged are **not substantially** different or the modification of the terms of an existing liability is **not substantial**, the loan debt or financial liability shall not be accounted for as an extinguishment and any costs or fees paid or received (normally referred to as premiums and discounts by local authorities) adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. The exchange of loan instruments and associated settlement of any fees or costs incurred shall be simultaneous (ie take place on the same day). However, net settlement is not required as long as any payments between the lender and borrower are made on the same day.

7.2.3.4 The terms of a loan exchange between an existing borrower and lender or the modification of the terms of a financial liability are *'substantially different'* or *'substantially modified'* if the present value of the net cash flows under the new terms, including any fees paid net of any fees received (normally referred to as premiums and discounts by local authorities), is at least 10% different from the discounted present value of the remaining cash flows under the original loan debt or original terms of the financial liability. In calculating the present value of these cash flows, the original effective interest rate of the old loan debt or unmodified financial liability shall be used.

Regulations/statutory guidance on premiums and discounts

7.2.3.5 Premiums and discounts incurred on the early repayment of loan debt are covered by regulations or statutory guidance (see part 2 of Appendix B for the legislative basis). There are no regulations for Northern Ireland. The various regulations/statutory guidance of England, Wales and Scotland allow (or in the case of discounts, require) any premiums and discounts arising from 1 April 2007 that are required under the 2007 SORP to be to be taken immediately to Surplus or Deficit on the Provision of Services to be amortised to 'revenue' (ie the General Fund) over the various periods specified in the regulations/statutory guidance or in the case of premiums such shorter period as the authority may choose.

7.2.3.6 The Surplus or Deficit on the Provision of Services shall reflect the Code requirements. The effect of applying the regulations/statutory guidance shall be accounted for through the Movement on Reserves Statement. The difference between the amount charged or credited in the year to Surplus or Deficit on the Provision of Services in accordance with the Code and the amount charged or credited to the General Fund in accordance with regulations/statutory guidance should be debited or credited to the General Fund Balance with the double entry going to the Financial Instruments Adjustment Account such that the General Fund is charged or credited with the amount that accords with the applicable regulations/statutory guidance.

Regulations/statutory guidance on acquisition and disposal of share and loan capital

7.2.3.7 In England and Wales the acquisition and disposal of 'share and loan capital' (the term used in legislation) is within the scope of the capital controls framework (see part 2 of Appendix B for the legislative basis). For example, the acquisition of shares will be required to be incorporated into the statutory capital financing arrangements, with revenue or capital receipts being set aside, or the payment being added to the Capital Financing Requirement to generate MRP. Authorities will need to determine whether any acquisitions or disposals of financial assets are share or loan capital within the meaning of the legislation and account for the statutory requirements.

7.2.4 Financial Guarantee Contracts

7.2.4.1 Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. Commercial organisations may charge a fee for accepting the risk involved in giving such financial guarantees but local authorities enter into such arrangements for policy rather than commercial reasons and do not usually receive a fee.

7.2.4.2 The financial guarantee contract shall be initially recognised at fair value. If the contract was issued in a stand-alone arm's-length transaction to an unrelated party, its fair value at inception will be the premium received unless there is evidence that this is not a reliable estimate of fair value. If no premium is received the fair value of the financial guarantee contract at inception shall be estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee.

7.2.4.3 Subsequently a financial guarantee shall be measured at the higher of the amount recognised initially and the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Assets* less when appropriate cumulative amortisation. Therefore, the carrying amount of the financial guarantee would remain at the original amount estimated at inception (less cumulative amortisation) unless payment under the guarantee becomes probable, at which point the amount of the liability shall be determined in accordance with IAS 37.

7.2.4.4 The entries on initial recognition would be to recognise the liability by crediting Financial Guarantee Liabilities and to charge the loss to Surplus or Deficit on the Provision of Services. If the amount determined in accordance with IAS 37 becomes greater than the carrying amount, the carrying amount should be increased to this amount. The movements in the carrying amount of the financial guarantee after initial recognition whether from subsequent re-measurement in accordance with IAS 37 or from amortisation of the liability in accordance with IAS 39 shall be debited or credited to Surplus or Deficit on the Provision of Services. Any consideration received for granting the financial guarantee should be credited to Surplus or Deficit on the Provision of Services.

7.3 ACCOUNTING FOR FINANCIAL ASSETS AFTER INITIAL RECOGNITION

7.3.1 Introduction

7.3.1.1 This section of the Code covers:

a) subsequent measurement of the Balance Sheet carrying amount of financial assets

b) determination of the income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement for the accounting period

c) impairment of financial assets

d) derecognition of financial assets.

7.3.1.2 The accounting treatment of a financial asset after initial recognition (ie how subsequent carrying value is measured and gains and losses recognised) depends on its classification on initial recognition. The Code requires financial assets to be classified into one of three categories of financial assets (see section 7.1.5 of the Code):

- loans and receivables
- available for sale
- at fair value through profit or loss.

7.3.1.3 There is also one type of financial asset that falls outside the regular classifications above, which is an *equity instrument for which a reliable fair value cannot be determined*.

7.3.2 Subsequent Measurement of Financial Assets and Determination of the Amounts to be Recognised in the Comprehensive Income and Expenditure Statement

Loans and receivables

7.3.2.1 The carrying amount of loans and receivables and the interest income receivable are measured following initial recognition at amortised cost using the effective interest rate method (see paragraphs 7.2.2.1 to 7.2.2.6). Interest receivable, impairment losses and the gain or loss on derecognition are taken to Surplus or Deficit on the provision of services. The impairment and derecognition of loans and receivables are dealt with in paragraphs 7.3.3.1 to 7.3.3.6, which covers all categories of financial assets.

7.3.2.2 Short-duration receivables with no stated interest rate should be measured at original invoice amount.

Available-for-sale financial assets

7.3.2.3 After initial recognition the carrying amount of an available-for-sale financial asset shall be measured at its fair value, without any deduction for transaction costs that would be incurred on sale or other disposal. The following hierarchy shall be used in determining a reliable measure of a financial instrument's fair value on re-measurement (the hierarchy also applies to financial assets at fair value through profit or loss.):

a) **Active Market – Quoted Market Price** – published price quotations in an active market are the best evidence of fair value, and if available shall be used to measure the financial instrument. Where more than one price is quoted, the 'bid' price shall be used.

b) **No Active Market – Valuation Techniques** – if the market for a financial instrument is not active, fair value shall be established by using a valuation technique. Valuation techniques include:

- recent market transactions
- reference to a transaction that is substantially the same
- discounted cash flows and option pricing models.

An acceptable valuation technique incorporates all factors that market participants would consider in setting a price, and shall be consistent with accepted economic methodologies for pricing financial instruments.

c) **No Active Market – Equity Instruments** – normally it is possible to estimate the fair value of an equity instrument that has been acquired from an outside party. However, if the range of reasonable fair value estimates is significant, and no reliable estimate can be made, the instrument shall be measured at cost less impairment.

7.3.2.4 The gain or loss arising from a change in the fair value of an available-for-sale financial asset shall be recognised in Other Comprehensive Income and Expenditure and taken to the Available-for-Sale Reserve except for impairment losses and foreign exchange gains and losses, which shall be recognised in Surplus or Deficit on the Provision of Services. The calculation of the gain or loss shall be based on the 'clean' price of the instrument, ie its fair value excluding accrued interest, and the amortised cost of the instrument also excluding accrued interest.

7.3.2.5 When an available-for-sale financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure shall be transferred from the Available-for-Sale Reserve and recognised in Surplus or Deficit on the Provision of Services.

7.3.2.6 Interest on an available-for-sale financial asset shall be calculated using the effective interest rate method and credited to Surplus or Deficit on the Provision of Services. Dividends on an available-for-sale equity instrument shall be recognised in Surplus or Deficit on the Provision of Services when the right to receive payment is established.

At fair value through profit or loss

7.3.2.7 After initial recognition the carrying amount of a financial asset at fair value through profit or loss shall be measured at its fair value, without any deduction for transaction costs that would be incurred on sale or other disposal. See paragraph 7.3.2.3 on how fair value shall be estimated. Changes in the fair value of a financial asset at fair value through profit or loss shall be recognised in Surplus or Deficit on the Provision of Services.

Unquoted equity investments for which a reliable fair value cannot be established

7.3.2.8 One type of financial asset falls outside the standard IAS 39 asset categories, which is unquoted equity instruments for which a reliable fair value cannot be established. Except for investments in subsidiaries and associates, which are covered by chapter nine of the

Code, these should be measured subsequent to initial recognition at cost. Fair value cannot be reliably estimated when the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. There are well-established techniques for valuing unquoted companies and it will often be possible to estimate fair value. Dividends shall be recognised in Surplus or Deficit on the Provision of Services when the right to receive payment is established.

7.3.3 Impairment and Uncollectability of Financial Assets

7.3.3.1 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. Expected losses as a result of future events, no matter how likely, shall not be recognised. The downgrade of the credit rating of a creditor is not of itself objective evidence of impairment, although it may be when considered with other information. Events that provide objective evidence of impairment include the following:

a) significant financial difficulty of the creditor

b) a breach of contract, such as a default or delinquency in interest or principal payments

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

e) the disappearance of an active market for that financial asset because of financial difficulties

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments), or

   ii) national or local economic conditions that correlate with defaults on the assets in the group (eg a significant increase in the unemployment rate in the authority area).

7.3.3.2 At each Balance Sheet date an assessment shall be made of whether there is objective evidence that any financial asset or group of financial assets may be impaired. An assessment shall first be made of whether evidence of impairment exists individually for financial assets that are individually significant. Then an assessment of impairment shall be made individually or collectively for financial assets that are not individually significant.

Collective evaluation of impairment

7.3.3.3 If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset shall be included in a group of financial assets with similar credit risks and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised shall not be included in a collective assessment of impairment. When information becomes available that

specifically identifies losses on individually impaired assets in a group, those assets shall be removed from the group.

7.3.3.4 For the purposes of a collective evaluation of impairment, financial assets shall be grouped on the basis of similar credit risk characteristics. Those characteristics shall be relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Relevant characteristics would normally include asset type (eg trade debtors, council tenant rent debtors and unsecured loans might be separate asset types) and past-due status (eg age analysis of debtor balance).

7.3.3.5 Future cash flows in a group of financial assets that are collectively evaluated for impairment shall be estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Where current information indicates that the historical loss experience does not properly reflect current conditions, the historical loss experience shall be adjusted appropriately.

Impairment of financial assets carried at amortised cost

7.3.3.6 If there is objective evidence that impairment of a financial asset carried at amortised cost has been incurred and the carrying amount exceeds its estimated recoverable amount, then the asset is impaired. The recoverable amount is the present value of the expected future cash flows discounted at the instrument's original effective interest rate. Sometimes the effective interest rate would be zero, ie in the case of most trade debtors, which would not usually bear interest. The carrying amount shall be reduced to its recoverable amount either directly or through the use of an allowance account. The amount of the loss shall be included in Surplus or Deficit on the Provision of Services.

Impairment of available-for-sale financial assets

7.3.3.7 If there is objective evidence of impairment of an available-for-sale financial asset, the cumulative net loss that has previously been recognised in Other Comprehensive Income and Expenditure shall be removed from the Available-for-Sale Reserve and recognised in Surplus or Deficit on the Provision of Services, even though the asset has not been sold. The cumulative net loss is the difference between amortised acquisition cost and current fair value less any impairment loss previously recognised in Surplus or Deficit on the Provision of Services.

7.3.3.8 Impairments of investments in equity securities shall not be reversed and an increase in fair value subsequent to its impairment shall be recognised in Other Comprehensive Income and Expenditure and taken to the Available-for-Sale Reserve. However, if the fair value of an investment in an available-for-sale debt instrument increases subsequent to its impairment and the increase can be objectively related to an event occurring after the loss was recognised, the loss shall be reversed through Surplus or Deficit on the Provision of Services.

Impairment of financial assets carried at cost

7.3.3.9 If there is objective evidence of impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the

impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset. The loss shall be charged to Surplus or Deficit on the provision of services. Such impairment losses shall not be reversed.

Interest income after impairment recognition

7.3.3.10 Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income shall be thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Regulations/statutory guidance on impairment of financial assets

7.3.3.11 Regulations or statutory guidance (see part 2 of Appendix B for the legislative basis) permitted authorities to defer the impact of the impairment of certain investments on the General Fund until no later than 2010/11.

7.3.3.12 If an authority retains a balance on the Financial Instrument Adjustment Account in respect of the impairment of investments, it shall transfer that balance to the General Fund, and include the transfer in the Movement in Reserves Statement.

7.3.4 Derecognition of a Financial Asset

7.3.4.1 Establishing when a financial asset should be derecognised is straightforward in most cases. Normally a financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred. However, the requirements are complex where an authority retains the right to receive cash flows or any of the risks and rewards of the financial asset following the transfer. In such cases the arrangement should be carefully analysed in accordance with paragraphs 15 to 37 and AG36 to AG52 of IAS 39 to determine whether and to what extent a financial asset should be derecognised and whether there are any new assets and liabilities to be recognised.

7.4 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

7.4.1 Introduction

7.4.1.1 This section of chapter seven sets out the required disclosures and presentation of financial instruments. Hedge accounting disclosures are not covered. Hedge accounting, while permitted by the Code, would seldom be used by a local authority. Where an authority uses hedge accounting it shall include the presentation and disclosures required by IAS 32 and IFRS 7. Those disclosures applicable only to entities that issue equity instruments are not covered in detail in the Code. In the very unlikely circumstance that a local authority issued a financial instrument which IFRS required to be accounted for as an equity instrument, the presentation and disclosures required by IAS 32 and IFRS 7 shall apply.

7.4.1.2 Part 1 of the section sets out the required disclosures of financial instruments. Its purpose is to require authorities to provide information in their financial statements that would enable users to evaluate:

- the significance of financial instruments for the authority's financial position and performance
- the nature and extent of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks.

7.4.1.3 The extent of disclosure required depends on the extent of the authority's use of financial instruments and of its exposure to risk. To the extent that required information is presented on the face of the financial statements, it is unnecessary to repeat it in the notes. Disclosures include a combination of narrative descriptions and quantified data, as appropriate to the nature of the instruments and their relative significance to the authority.

7.4.1.4 Determining the level of detail to be disclosed about particular financial instruments requires the exercise of judgment taking into account the relative significance of those instruments. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users and obscuring important information as a result of too much aggregation. For example, when an authority is party to a large number of financial instruments with similar characteristics and no single contract is individually material, a summary by classes of instruments is appropriate.

7.4.1.5 The accounting standard underlying the Code's financial instruments presentation requirements is IAS 32 *Financial Instruments: Presentation*. However, much of the standard covers matters that are of relevance only to entities that issue equity instruments; and the Code therefore does not cover in detail paragraphs 15 to 41 of IAS 32, which deal with:

a) classifying financial instruments issued as liabilities or equity (paragraphs 15 to 27)
b) compound financial instruments issued (ie financial instruments that contain both a liability and an equity component) (paragraphs 28 to 32)
c) 'treasury shares' (ie the reacquisition of its own equity instruments by an entity) (paragraphs 33 and 34)
d) interest, dividends, losses and gains, which deals with distinguishing dividend type distribution to equity holders (which shall be debited to equity) from interest payments to holders of an entity's liability instruments, which shall be recognised in profit or loss (paragraphs 35 to 41).

7.4.1.6 If the above matters were to become relevant to accounting statements prepared under this Code, the matter shall be accounted for in accordance with IAS 32.

PART 1 – DISCLOSURES

7.4.2 Significance of Financial Instruments for Financial Position and Performance

7.4.2.1 An authority shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. The disclosures required are:

Balance Sheet disclosures

Categories of financial assets and financial liabilities

7.4.2.2 The carrying amounts of each of the following categories shall be disclosed either in the Balance Sheet or in the notes to the accounts:

a) loans and receivables

b) available-for-sale financial assets

c) unquoted equity investment at cost

d) financial assets at fair value through profit or loss (if any)

e) financial liabilities at amortised cost

f) financial liabilities at fair value through profit or loss (if any).

Reclassification

7.4.2.3 If an authority has reclassified a financial asset as one measured:

a) at cost or amortised cost, rather than at fair value

b) at fair value, rather than at cost or amortised cost

it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.

Derecognition

7.4.2.4 If an authority has transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition it shall disclose for each class of such financial assets:

a) the nature of the assets

b) the nature of the risks and rewards of ownership to which the authority remains exposed

c) when the authority continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities, and

d) when the authority continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the authority continues to recognise, and the carrying amount of the associated liabilities.

Collateral

7.4.2.5 When an authority holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

a) the fair value of the collateral held

b) the fair value of any such collateral sold or repledged, and whether the authority has an obligation to return it

c) the terms and conditions associated with its use of the collateral.

It is considered highly unlikely that authorities will pledge collateral, as all securities created by a local authority rank equally without any priority in accordance with section 13 of the

Local Government Act 2003 (in England and Wales) or paragraph 8 of Schedule 3 to the Local Government (Scotland) Act 1975. If, exceptionally, an authority has pledged collateral, it shall provide the disclosures required by IFRS 7.

Allowance account for credit losses

7.4.2.6 When financial assets are impaired by credit losses and the authority records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

Defaults and breaches

7.4.2.7 For loans payable recognised at the end of the reporting period, an authority shall disclose:

a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable

b) the carrying amount of the loans payable in default at the reporting date, and

c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

7.4.2.8 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 7.4.2.7, an entity shall disclose the same information as required by paragraph 7.4.2.7 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).

Comprehensive Income and Expenditure Statement disclosures

Items of income, expense, gains or losses

7.4.2.9 An authority shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:

a) Net gains or net losses on:

i) financial assets or financial liabilities at fair value through profit or loss (if any)

ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised in Other Comprehensive Income and Expenditure during the period and the amount reclassified from Other Comprehensive Income and Expenditure to Surplus or Deficit on the provision of services for the period

iii) loans and receivables

iv) financial liabilities measured at amortised cost.

b) Total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss.

c) Fee income and expense (other than amounts included in determining the effective interest rate) arising from: