



Financial Services Authority

Impact of IFRS on financial statements of Financial Services Authority

June 2006

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Disclaimer on forward looking statements

This document contains forward looking statements and forecasts with respect to the financial condition, results of operations and businesses of the Financial Services Authority.

These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by those forward looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.

Introduction

- The Financial Services Authority has chosen voluntarily to report under International Financial Reporting Standards from 1 April 2005.
- The first detailed report being the full year results for 2005/06 due in June 2006.
- Comes with a health warning as the clarification process is continuing.

Highlights

- Surplus before tax for 2004/05 has increased by £0.3m.
- Statement of Recognised Income and Expense for 2004/05 has reduced by £0.1m.
- Reserves at 1 April 2004 have reduced by £1.0m.
- Reserves at 31 March 2005 have reduced by £0.8m.

Areas of material impact

	Reserves at 1 April 2004 £'m	Surplus 2004/05 £'m	Statement of Recognised Income and Expense 2004/05 £'m	Reserves at 31 March 2005 £'m
UK GAAP	(67.4)	0.4	(3.7)	(70.7)
IAS 17 – Leases	(9.8)	(1.1)	–	(10.9)
IAS 19 – Employee benefits	(0.7)	–	(0.1)	(0.8)
IAS 38 – Intangible assets	9.5	1.4	–	10.9
IFRS	(68.4)	0.7	(3.8)	(71.5)

IAS 17 – Leases

Technical requirements

- Removal of the 90% test for the definition of a finance lease and replacement with more detailed guidance
- Incentives for a new or renewed operating lease should be recognised by the lessee as a reduction of the rental expense over the life of the lease term
- Minimum lease payments of an operating lease must be expensed on a straight line basis over the life of the lease
- Leases for land and buildings must be treated separately for purposes of defining the lease as operating or finance

Impact on FSA

- The more detailed guidance on finance lease definition does not change the FSA's classification of property leases as operating for both land and buildings
- Previously the FSA spread lease incentives over the period to the next rent review and charged lease payments to income when incurred. The impact of the changes is to increase lease expenses in all periods to 2008/09 and to reduce them thereafter

Impact on surplus and reserves:

- Reduce reserves at 1 April 2004 by £9.8m
- Reduce Surplus Before Tax for period to 31 March 2005 by £1.1m
- Reduce reserves at 31 March 2005 by £10.9m

IAS 19 – Employee benefits

Technical requirements

- Short term benefits are expensed in the period in which they occur
- IAS 19 treatment of defined benefit schemes is similar to that under FRS 17, as early adoption of the amendment to IAS 19 allows recognition of actuarial gains and losses through the statement of recognised income and expenses
- No change in treatment of Defined Accumulation Funds
- Other long term benefits are treated the same as defined benefit funds
- Defined benefit fund assets are valued at bid price rather than mid price

Impact on FSA

- Full net deficit on Defined Benefit Fund is recognised on the Balance Sheet as previously reported. The basis of valuation for fund assets has changed, in accordance with IAS 19, resulting in minor adjustments to the net deficit and return on assets previously reported.

Impact on surplus and reserves:

- Reduce reserves at 1 April 2004 by £0.7m
- Reduce Statement of Recognised Income and Expense for the period to 31 March 2005 by £0.1m
- Reduce reserves at 31 March 2005 by £0.8m

IAS 38 – Intangible assets

Technical requirements

- Widening of definition of intangible assets
- Internally generated intangibles should be capitalised where:
 - it is probable that they will generate future economic benefits
 - it is technically feasible to make the intangible asset available for use or sale
 - the resources exist to do so and
 - expenditure attributable to its development can be reliably measured

Impact on FSA

- Capitalisation of certain software expenditure, where such expenditure meets the defined criteria
- Expenditure capitalised includes direct costs incurred in the internal development of software.
- Such assets are amortised over their estimated useful life using the cost method

Impact on surplus and reserves:

- Increase in reserves at 1 April 2004 of £9.5m
- Increase in Surplus before tax for period to 31 March 2005 of £1.4m
- Increase reserves at 31 March 2005 by £10.9m

PUB REF: 2644

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