



**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **May 2006, London**

Project: **Analysis of comment Letters on IFRIC Draft Interpretation D18
(Agenda Paper 8(i))**

INTRODUCTION

1. Draft Interpretation D18 IFRS Interim Financial Reporting and Impairment was published for comment on 12 January 2006 with comments requested by 31 March 2006. Fifty four comment letters have been received and recurring comments and comments on major matters have been analysed below. Draft Interpretation D18 and the associated comment letters are available at <http://www.iasb.org>. A list of respondents is included as Appendix A to this paper.
2. Under IAS 36, goodwill impairments booked at one reporting date may not be reversed in a subsequent period. Similarly, under IAS 39, financial assets carried at cost and equity instruments available for sale are assessed for impairment at each balance sheet date and impairments booked are not subsequently reversed through the profit or loss account. Under IAS 34.28, the frequency of an entity's interim reporting should not affect its full year results.
3. The question arises as to whether impairments booked in interim periods may be reversed in subsequent periods (which would appear to conflict with the requirements of IAS 36 and 39)

or whether they may not be reversed, in which case the frequency of reporting may affect year end results (in conflict with IAS 34.28).

4. The draft D18 provides guidance on “the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.”
5. The consensus of D18 is that “an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in an equity instrument or financial asset carried at cost.”
6. This paper summarises the key points raised in the comment letters received on this draft Interpretation.

SUMMARY OF RESPONSES

7. Respondents were divided on the question of whether such impairments booked in interim financial statements may be reversed in subsequent periods. Twenty six of the respondents supported the view in D18 that the impairments should not be reversed. Twenty-one believed that reversal should be allowed. A further five respondents were supportive of the Interpretation as it related to either goodwill or financial assets but believed that further guidance was required on either IAS 39 or IAS 36 in order to accept the consensus overall.
8. Of those who disagreed with the proposal in D18, fifteen stated that this was because it would lead to reduced comparability between preparers and result in differing results dependent on the frequency of reporting. Seven argued that interim financial statements were prepared to a lower degree of accuracy than year end financial statements. These respondents commented that typically these interim statements are not audited, and full year statements are used to refine estimates used in the interim periods. They believe that disallowing the reversal of impairments booked in interim periods would ‘lock in’ values which had been prepared to a lower degree of accuracy.¹
9. The staff attempted to prepare an analysis which split respondents into groups or nationalities who supported the consensus, and groups or nationalities who did not. The staff were unable to identify any significant groups who were united in their view on the consensus.

¹ [Footnote not reproduced for Observer Notes]

10. Whilst a majority of respondents supported the conclusion that impairments booked in interim periods should not be reversed, thirty five did not believe that the IFRIC should deal with the issue. Of these, the majority believed that the Interpretation was addressing a contradiction within the standards which IFRIC did not have authority to address by way of an Interpretation. These respondents believed that where a contradiction was evident in standards, the Board should address this by amending the relevant standards.
11. Other respondents believed that a better route to resolve the issue would be to issue an amendment to IAS 34 rather than a standalone Interpretation. Other believed that the IFRIC had identified a number of issues with IAS 34 during the course of its work, and that the Board should address all of these as part of a project to address the wider issues in IAS 34.
12. Twelve of the respondents commented that the draft Interpretation was based on a rule and that the Basis for Conclusions failed to identify a principle or concept which should be followed, or failed to discuss properly the underlying principles that support the Interpretation.
13. A number of respondents also raised issues with the draft Basis of Conclusions. In particular :
 - BC5 states that IAS 36 and IAS 39 contain more specific statements than IAS 34 and therefore take precedence. A number of respondents believed that IAS 34 was more specific to interim reports and that the specific statement that the frequency of reporting should not affect the year end result contained in IAS 34 should therefore take precedence
 - BC6 uses the rationale that later standards take precedence over earlier standards. Nine of the respondents believed that this was a weak argument, and that it may set a precedent for other circumstances (despite the restriction in scope included within paragraph BC8)
14. Eighteen of the respondents commented that full retrospective application was a more onerous requirement than required by IAS 36 and was likely to be impractical.

DETAILED ANALYSIS OF RESPONSES

Reversal of impairments

15. Of the fifty four responses received, twenty six agreed that impairments of goodwill and certain financial assets booked in interim financial statements should not be reversed in subsequent interim financial statements or full year financial statements.

16. Supporters of this view typically believed that the “objective to apply the same standards in interim financial statements as in annual financial statements is made superior to the objective to avoid that the frequency of an entity’s interim reporting affects the measurement of its annual results” (CL30).
17. In contrast, twenty one respondents believed that preparers of accounts should be allowed to reverse or adjust impairments which had been booked in interim financial statements in subsequent or full year financial statements. Reasons for allowing the reversal of impairments included :
- “The consensus set out by IFRIC in D18 would severely impair the comparability of annual financial statements between entities with differing frequencies of financial reporting” (CL2)
 - The draft D18 contradicts “the fundamental principle in IAS 34, that interim reports are produced on a year to date (YTD) basis, whereby the frequency of an entity’s reporting shall not affect the measurement of its interim results.” (CL49)
 - “IAS 34 states in paragraph 23 ‘In making assessments of materiality, it shall be recognised that interim measures may rely on estimates to a greater extent than measurements of annual financial data’ ...To make an interim impairment adjustment irreversible directly contradicts this requirement, as the impairment loss in the annual report is effectively the accurate remeasurement for the whole year of an amount that was estimated in the interim period.” (CL4)
 - One respondent considered that “the current proposals in respect of prohibiting the reversal of impairments of equity instruments available for sale and financial assets measured at cost as recognized in interim financial reports might lead to a decreasing number of entities (voluntarily) issuing interim reports” (CL13)
18. Five respondents accepted the proposal in part but not in whole. The majority of these accepted that impairments of goodwill should not be reversed. Three stated that they would only accept that impairments of available for sale financial assets should not be reversed if further guidance was issued as to when an impairment had occurred under IAS 39. They “would agree with a modification to IAS 34 to prohibit the reversal of impairment losses on available-for-sale financial assets only if IAS 39 were modified to specify under which minimal circumstances an AFS financial asset is considered to have suffered a significant or prolonged decrease in fair value.” (CL18)

Responsibility of IFRIC

19. Thirty five of the respondents did not believe that IFRIC should deal with the issue.
20. Many of these respondents believed that the IFRIC could not amend a standard; “in our opinion, IFRIC Interpretations should not be used to resolve conflicts between standards. This is only a matter for the IASB” (CL30)
21. Some believed that there was a need for a “comprehensive Board project on interim reporting to address the inconsistency discussed [in D18] and other application issues identified by IFRIC in its debate....such a project should be given a higher priority than some of the IASB’s current convergence agenda.” (CL22)
22. Many also suggested that the conflict between IAS 34 and the other standards would be best addressed by amendment of IAS 34: “...it would be best to resolve the conflict between IAS 34 Interim Financial Reporting and the other Standards through amendment of IAS 34, since the issue arises because of the principles underlying the interim reporting requirements.” (CL26)

Lack of a principle based Interpretation

23. Twelve of the respondents expressed concern that the Interpretation was not based on principles or concepts. One respondent states that “What causes great concern to us, though, is the insufficient dealing with the underlying premises of IFRIC D18 and the lack of any conceptual foundation of the consensus.” It states that there are “three important underlying premises that are not explicitly dealt with in the draft Interpretation, but that are of crucial importance for the development of the Interpretation and the rationale of the Consensus.” The three underlying premises are :

- i. “Review for indications of an impairment at each interim date...although the [respondent] believes that the phrases ‘at each reporting date’ and ‘at each balance sheet date’ refer to both annual and interim periods this should have been made clear by the IFRIC, because IFRIC D18 is based on this underlying assumption”
- ii. “Prevalence of the discrete approach in IAS 34...Unfortunately, the IFRIC is silent with regard to its reasoning as to why it prefers the discrete approach...additionally...the IFRIC did not provide any conceptual reasons why IAS 36 and IAS 39 should over-rule IAS 34.”
- iii. “No diversity in practice with regard to the continuous monitoring of indications of impairment...There is a lack of clarity in the impairment

regulations that should have been dealt with by the IFRIC in the course of discussing the issue in IFRIC D18.” (CL8)

24. One respondent stated, in connection with the limitation in scope included in paragraph BC8 of the Basis of Conclusions to IFRIC D18, “such a move is a step towards rules-based accounting standards. Instead the [respondent] believes that Interpretations should be based on principles to be useful to constituents.” (CL23)

Basis of conclusions

25. A number of respondents raised concerns over certain of the paragraphs in the Basis for Conclusions.

BC5 – IAS 36 and IAS 39 should take precedence over the more general IAS 34

26. “In BC5 the IFRIC simply decides that some rules should take precedence over other rules, the only reason being that the rules in IAS 34 are considered more general than the rules in IAS 36 and IAS 39. However, if IAS 34 were regarded as a specific set of rules for interim financial statements while all other standards (including IAS 36 and IAS 39) apply to annual financial statements, the rules in IAS 34 should determine how the issue addressed in IFRIC D18 is to be dealt with.” (CL 8)

BC6 – IAS 34 was issued before the reversal of impairment losses was prohibited and did not consider these later specific requirements

27. “We do not regard the fact that IAS 34 was issued before the IAS 36 and 39 prohibitions on reversal of impairments as particularly relevant. Indeed, we are somewhat concerned that this argument could be applied inappropriately; the IFRIC’s comments at BC 6 might be taken to imply that greater weight should always be given to more recent pronouncements wherever IFRS gives conflicting indicators. The IFRIC has noted at BC 8 that its conclusion should not be extended to other conflicts between IAS 34 and other standards, but our concern is not limited to interim reporting.” (CL6)

BC8 – The Interpretation applies only to reversals of impairment losses of goodwill and investments in equity instruments and financial assets carried at cost

28. One respondent noted that the Basis of Conclusions was not reproduced in some territories for copyright reasons. By including a paragraph limiting the scope of the Interpretation in the Basis of Conclusions, it carried less weight and was not available to these territories. The respondent therefore proposed that this paragraph be inserted in the main text of the standard.

Other matters

29. A number of other items were raised by some respondents and these are summarised below.
30. Whilst one respondent noted that the Basis of Conclusions did not address the issue of convergence with US GAAP, another noted that the wording of the consensus would comply with US GAAP literature (CL30).
31. It was proposed that the wording of the consensus be amended to more closely reflect the wording used in IAS 39 and to use the words “available-for-sale financial assets” in place of “Investments in equity instruments”. (CL 31)
32. Two respondents commented that the Interpretation did not appear consistent with paragraphs 12-14 of the Basis of Conclusions of IAS 33. Paragraph BC12 states :

“The Board considered whether to accept that differences in the frequency of interim reporting would result in different earnings per share amounts being reported. However, IAS 34 Interim Financial Reporting states ‘the frequency of an entity’s reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting should be made on a year-to-date basis.’”

APPENDIX A – COMMENT LETTERS RECEIVED

IFRIC Draft Interpretation D18
Interim Financial Reporting and Impairment

Comment Letter Number	Respondent
1	Föreningen Auktoriserade Revisorer FAR <i>Sweden</i>
2	Institut der Wirtschaftsprüfer (IDW) <i>Germany</i>
3	Allianz group
4	The Institute of Chartered Accountants in Australia
5	ANGLO Platinum
6	Grant Thornton International
7	KBC Bank
8	Accounting Interpretations Committee - German Accounting Standards Committee (DRSC) <i>Germany</i>
9	Banken Verband, Bundesverband Deutscher Banken
10	UBS Financial Services Inc
11	Gerling Beteiligungs-GmbH
12	Accounting Standards Board (ASB) <i>UK</i>
13	Dutch Accounting Standards Board (DASB)
14	Institute of Chartered Accountants in England & Wales (ICAEW) <i>UK</i>
15	Conseil National de la Comptabilité (CNC) <i>France</i>
16	South African Institute of Chartered Accountants (SAICA) <i>South Africa</i>
17	F. Hoffman-La Roche Ltd
18	Industrie-holding, The Federation of Swiss Direct Investors
19	Instituto de Contabilidad y Auditoria de Cuentas <i>Spain</i>
20	Korea Accounting Association (KAA)
21	Union of Industrial and Employer's Confederations of Europe (UNICE)

Comment Letter Number	Respondent
22	KPMG (International)
23	Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand (ICANZ) <i>New Zealand</i>
24	Australasian Council of Auditors-General
25	CPA Australia
26	Australian Accounting Standards Board – Urgent Issues Group <i>Australia</i>
27	PricewaterhouseCoopers (International)
28	RAG Aktiengesellschaft
29	Syngenta
30	Foreningen af Statsautoriserede Revisorer (FSR) <i>Denmark</i>
31	BDO Global Coordination Office
32	RWE Aktiengesellschaft
33	Commissione per I principi contabili
34	Institute of Certified Public Accountants of Kenya
35	Swedish Enterprise Accounting Group (SEAG)
36	Nestle SA
37	Mazars
38	Ernst & Young (International)
39	Deloitte Touche Tohmatsu International
40	Association of Chartered Certified Accountants (ACCA) <i>UK</i>
41	Generali Group
42	Desarrollo de Normas de Informacion Financiera (Mexican Accounting Standards Board)
43	Group of 100 <i>Australia</i>
44	The International Accounting Standards Review Committee (IASRC) of the Korea Accounting Standards Board (KASB)
45	The Institute of Chartered Accountants in Ireland
46	Malaysian Accounting Standards Board (MASB) <i>Malaysia</i>

Comment Letter Number	Respondent
47	Fédération des Experts Comptables Européens (FEE)
48	CONFIDENTIAL
49	Hong Kong Institute of Certified Public Accountants <i>Hong Kong</i>
50	Astrazeneca
51	European Financial Reporting Advisory Group (EFRAG)
52	Danish Bankers Association
53	Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO) and Mouvement des Entreprises de France (MEDEF) <i>France</i>
54	International Organization of Securities Commissions (IOSCO)

APPENDIX B – SUMMARY OF RESPONSES

Respondents	Agree with the treatment proposed by D18			Reasons for disagreement with the proposed treatment (if applicable)			Disagreement with the approach / wording						Do not support retrospective application	Propose amendments to IAS39 or IAS36
	Yes	No	Agree with the proposal - for goodwill only or for financial assets only	Reduced comparability of accounts	Interim data is not audited or accurate	Conflicts with the YTD principle which is fundamental to IAS34	Issue should be resolved by the Board	D18 doesn't address the principles	Because 36 and 39 were issued later is a poor argument	IAS34 is more specific than IAS36 or 39	Not consistent with eps	Restriction in scope is unsatisfactory		
Standard-Setters	6	4	0	3	1	1	7	2	2	2	1	2	6	1
Liaison Standard-Setters	1	3	0	3	1	1	3	1	2	2	0	1	4	0
Other Standard Setters	5	1	0	0	0	0	4	1	0	0	1	1	2	1
Regulators	1	0	0	0	0	0	2	2	0	0	0	0	1	0
Accounting Firms	5	1	0	1	1	0	5	3	1	1	0	0	2	0
Accountancy Bodies	9	6	0	1	3	2	9	3	1	2	0	0	6	0
Preparers	5	10	4	9	2	4	11	2	5	3	1	2	2	5
Banking, financial institutions, and their representatives :	3	5	0	4	1	3	4	1	0	1	0	0	1	1
Other Companies and preparers :	2	5	4	5	1	1	7	1	5	2	1	2	1	4
Others	0	0	1	1	0	0	1	0	0	0	0	0	1	0
TOTAL	26	21	5	15	7	7	35	12	9	8	2	4	18	6