Project	**Interim Reporting**
Topic	**IAS 34 *Interim Financial Reporting***

Purpose

1. The purpose of this paper is to ask the Board to consider a proposed draft amendment to IAS 34 as part of the forthcoming Annual Improvements exposure draft (to be published in August 2009).

Background

2. In February 2009 the Board discussed the issue of interim disclosures (Agenda paper 12). The issue was whether or not particular disclosure requirements within IFRS 7 *Financial Instruments: Disclosures* should be mandated for interim reporting. The staff noted that this issue was recurring, cross-cutting and relates to Standards other than IFRS 7.

3. At that meeting, the Board tentatively decided to emphasise the disclosure principles in IAS 34 and to consider adding further guidance to illustrate how to apply these principles.

4. The Board agreed that such an approach:

   (a) provides for more flexibility as disclosures will depend on the extent the disclosure examples apply to the entity.

   (b) does not add to the existing principle-based requirements but only illustrates their application.

(c) cross references existing guidance on disclosures within other Standards to ensure consistency in application.

(d) requires little Board and staff time as it only involves adding more examples.

5. In April 2009 the Board discussed the issue of interim disclosures in the context of fair value disclosures. At that meeting, the Board decided to ask the IFRIC to clarify whether IAS 34 currently provides guidance sufficient to enable entities to decide whether fair value disclosures would be required in interim financial reports. This was to assess for diversity in practice in interpreting the principles of IAS 34.

6. At its May 2009 meeting, the IFRIC concluded that IAS 34 provides guidance sufficient to enable entities to decide whether updates to fair value disclosures are required in interim financial reports and decided not to add the issue to its agenda as it did not expect diversity in practice (IFRIC paper 14). Appendix A provides the wording for the tentative agenda decision.

7. The IFRIC's decision does not specifically address other IFRS 7 disclosures such as reclassifications. However, we think that, by analogy, IAS 34 provides a clear principle for determining which explanatory notes are required in interim reports—disclosures that explain events and transactions that are significant to an understanding of changes in financial position and performances of the entity since the end of the last annual reporting period. (IAS 34.15)

Staff analysis

8. The recommendations in this paper implement the tentative decisions reached by the Board in February.

9. We think that amending IAS 34 can be addressed through the annual improvements process. We think the proposals meet the criteria to be an annual improvement as it is:

(a) non-urgent – the IFRIC concluded that there is currently no diversity in practice.

(b) necessary – an emphasis of disclosure principles and additional guidance to illustrate how these principles are applied are improvements to interim financial reporting.

10. There is no active project on the IASB's agenda to address this cross-cutting issue. Hence, we think the issue would be addressed in the most timely manner as an annual improvement. (The annual improvements proposals open to comment in August 2009 will be finalised and issued in April 2010).

11. As noted above, in April the Board discussed the issue of interim disclosures in the context of fair value disclosures. In addition to referring the issue to the IFRIC, the Board decided to include in the forthcoming fair value exposure draft (ED), the requirement to disclose in interim periods, the same information required by IFRS 7.

12. The approach—to mandate specific information to be disclosed in interim financial statements by incorporating all disclosure requirements of a particular Standard into IAS 34—was one of several approaches proposed by the staff in February 2009 (Agenda paper 12).

13. The February and April decisions will be seen by some to contradictory. Our view is that the proposal in this paper will help those using IAS 34 by stating the principles more clearly and providing some additional examples of the type of information that could be usefully disclosed in interim reports. The proposals in the Fair Value Measurement exposure draft are contextual in that they are related to a specific IFRS just as IAS 34 contains a requirement to align the annual and interim disclosures for business combinations. A final decision as to whether fair value measurement disclosures should be made in all interim financial statements should be made as part of the deliberations of the fair value project.

Summary of proposed amendment

14. Appendix B sets out the proposed draft amendment to IAS 34. (For Board members' reference, Appendix C sets out the existing text in IAS 34). The draft

amendment emphasises the existing disclosure principle by highlighting (in bold), that:

> When providing explanatory notes at an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity and the financial statement effects of such events and transactions [emphasis added] since the end of the last annual reporting period are more useful (See Appendix B 16B).

15. The proposed amendment adds guidance to illustrate how to apply this principle by adding examples in IAS 34.17 that discusses disclosures related to:

    (a) fair value measurement; and

    (b) reclassification.

16. We have also suggested deleting paragraph 18. As highlighted by one IFRIC member at the May 2009 IFRIC meeting, in its current form some are reading this paragraph as saying that an entity does not look to other IFRSs to help it determine what information might be helpful in the interim reports.

Staff recommendation and question to the Board
The staff recommends that the Board include the proposed draft amendment to IAS 34 in the forthcoming Annual Improvements ED (to be published in August 2009). Does the Board agree with the staff's recommendation? If not, what does the Board wish to do and why?

Appendix A

A1. May 2009 IFRIC tentative agenda decision

> The IFRIC received a request to provide guidance on whether updates to annual fair value disclosures are required in condensed interim financial reports.
>
> The IFRIC noted that in accordance with IAS 34, an interim financial report provides an update on the latest complete set of annual financial statements. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, in accordance with IAS 34 its interim financial report should provide an explanation of and update to the information included in the financial statements for the last annual financial period.
>
> The IFRIC concluded that IAS 34 provides sufficient guidance to enable entities to decide whether updates to fair value disclosures are required in interim financial reports and [decided] not to add the issue to its agenda as it did not expect diversity in practice.

Appendix B

Proposed amendment to International Accounting Standard 34 *Interim Financial Reporting*

Introduction

The Board proposes the following amendment to IAS 34 *Interim Financial Reporting*

Selected explanatory notes

Many users of financial statements have asked the Board to consider whether some disclosure requirements should be mandated in both interim and annual financial statements. In particular, users proposed mandating some disclosure requirements within IFRS 7 *Financial Instruments: Disclosures* for interim financial reporting.

The Board proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

Proposed amendment to IAS 34 *Interim Financial Reporting*

~~Selected explanatory notes~~

Significant events and transactions

15 **An entity shall include in its interim report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period and information that updates the information presented in the most recent annual report in relation to those events and transactions. ~~is more useful.~~** [contains text from current paragraph 15]

15A A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report. [text from current paragraph 15]

16 The types of events or transactions for which disclosures would be required if material are set out below. The list not exhaustive.

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

(b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) ~~[deleted]~~ significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; ~~and~~

(j) related party transactions;

(k) significant transfers between levels of the fair value hierarchy in the measurement of the fair value of financial instruments;

(l) the reclassification of financial assets no longer held for the purpose of selling or repurchasing in the near term; and

(m) changes in contingent liabilities or contingent assets.

[contains text from current paragraph 17]

17 Individual Standards and Interpretations provide guidance regarding disclosure requirements for many of the items listed in paragraph 16. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual financial period.

~~18 Other Standards specify disclosures that should be made in financial statements. In that context, financial statements means complete sets of financial statements of the type normally included in an annual financial report and sometimes included in other reports. Except as required by paragraph 16(i), the disclosures required by those other Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.~~

Other minimum disclosures

18 **Notwithstanding the requirements in paragraphs 15-17, an entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. However, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period:**

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;

(b) explanatory comments about the seasonality or cyclicality of interim operations;

(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;~~, if those changes have a material effect in the current interim period;~~

(e) issuances, repurchases, and repayments of debt and equity securities;

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;

(iii) a measure of segment profit or loss;

(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements;

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss;

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation;

(h) ~~material~~ events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period; and

(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*. ~~; and~~

~~(j) changes in contingent liabilities or contingent assets since the end of the last annual reporting period.~~

[contains text from current paragraph 16]

Effective date

49 Paragraphs [x] were added/deleted/amended as part of *Improvements to IFRSs* issued in April 2010. An entity shall apply this amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendment to IAS 34 *Interim Financial Reporting*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

BC1 IAS 34 was issued by the International Accounting Standards Board's (IASB) predecessor body the International Accounting Standards Committee (IASC) in 1998. In the light of recent improvements to disclosure requirements, many users of financial statements requested that the Board consider mandating some disclosure requirements within IFRS 7 *Financial Instruments: Disclosures* for interim financial reporting. The Board noted that although IAS 34 does not directly mandate a list of specific disclosure requirements, it sets out several disclosure principles to determine what information should be disclosed in an interim financial report. The Board concluded that an emphasis on these principles and the inclusion of additional examples relating to more recent disclosure requirements ie fair value measurements and reclassifications would improve interim financial reporting. Hence, the Board proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

Appendix C

Selected explanatory notes

15 A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report. At an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period is more useful.

16 An entity shall include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. However, the entity shall also disclose any events or transactions that are material to an understanding of the current interim period:

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;

(b) explanatory comments about the seasonality or cyclicality of interim operations;

(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence;

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

(e) issuances, repurchases, and repayments of debt and equity securities;

(f) dividends paid (aggregate or per share) separately for ordinary shares and other shares;

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if IFRS 8 *Operating Segments* requires that entity to disclose segment information in its annual financial statements):

(i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;

(iii) a measure of segment profit or loss;

(iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements;

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss;

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation;

(h) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

(i) **the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by IFRS 3 *Business Combinations*; and**

(j) **changes in contingent liabilities or contingent assets since the end of the last annual reporting period.**

17 Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual Standards and Interpretations provide guidance regarding disclosures for many of these items:

(a) the write-down of inventories to net realisable value and the reversal of such a write-down;

(b) recognition of a loss from the impairment of property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;

(c) the reversal of any provisions for the costs of restructuring;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) [deleted]

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and

(j) related party transactions.

18 Other Standards specify disclosures that should be made in financial statements. In that context, financial statements means complete sets of financial statements of the type normally included in an annual financial report and sometimes included in other reports. Except as required by paragraph 16(i), the disclosures required by those other Standards are not required if an entity's interim financial report includes only condensed financial statements and selected explanatory notes rather than a complete set of financial statements.