



Project **IAS 34 Interim Financial Reporting**

Topic **Interim disclosures of fair value**

Introduction

1. The IFRIC received a request to provide guidance on whether fair value disclosures are required for interim reporting periods in accordance with IAS 34 *Interim Financial Reporting*.
2. The Board discussed fair value disclosures in interim financial reports at its April 2009 meeting. The Board decided to include in its exposure draft on fair value measurement the requirement to disclose, in interim periods, the same information required by IFRS 7 *Financial Instruments: Disclosure*.
3. The Board asked the IFRIC to clarify whether IAS 34 currently provides sufficient guidance to enable entities to decide whether fair value disclosures would be required in interim financial reports.

Purpose of this paper

4. IAS 34 notes that an entity may choose to publish a complete set of financial statements in accordance with IAS 1 rather than condensed financial statements and selected explanatory notes. In that case, the disclosures required by IFRS 7 would clearly be included. Consequently, this paper discusses interim fair value disclosures only in the context of selected explanatory notes required by IAS 34 for condensed interim financial reports.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

Background

5. In its discussion of the fair value measurement project at its March 2009 meeting, the Board did not find the emphasis of the principles in IAS 34 sufficient to indicate clearly that disclosures about the reclassification of financial instruments and their fair values might be required in some circumstances.
6. 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.
7. At the April 2009 IASB meeting, the Board tentatively decided that its forthcoming exposure draft (ED) on fair value measurements would propose new disclosures about the fair value of financial instruments, as part of the minimum disclosure requirements in IAS 34, for interim financial reports. These new disclosures are the same information required by IFRS 7 for annual financial reports.
8. The Board made its tentative decision in order to increase convergence between the interim disclosure requirements in IFRS 7 and FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*.
9. The Board questioned whether the interim fair value disclosures should be required before the effective date of the ED on fair value measurements.

Staff analysis

10. IAS 34 provides guidance on the objective and minimum content of an interim financial report. Paragraphs 6 and 7 of IAS 34 state:

... The interim financial report is intended to provide an *update* on the latest complete set of annual financial statements. Accordingly, it focuses on *new activities, events, and circumstances* and does not duplicate information previously reported. [emphasis added]

Paragraph 6

Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in IAS 1) in its interim financial report, rather than

condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements *more than the minimum line items or selected explanatory notes* as set out in this Standard ... [emphasis added] Paragraph 7

11. The staff notes that paragraph 15 of IAS 34 provides a clear principle for deciding which explanatory notes an entity should provide in the condensed interim financial report:

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.* [emphasis added]

12. Paragraphs 6 and 15 of IAS 34 emphasise that interim financial reports provide an *update* on the latest complete set of financial statements. Paragraph 15 of IAS 34 makes it clear that *it is necessary* for notes to an interim financial report to provide *significant updates* to the information that was already reported in the notes in the most recent annual report.
13. Therefore, in the staff's view, interim disclosures for fair value measurements are required if:
- (a) the annual report provides a disclosure;
 - (b) the information it contains changes significantly; and
 - (c) those changes significantly affect a reader's understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.
14. For example, if an input in a valuation technique for measuring the fair value of a financial instrument has significantly changed at the interim reporting date, disclosure updating that provided in the latest annual report would be required. In other words, if the change in the input is significant to an understanding of the change in the financial position or performance of the entity since the last annual reporting period disclosure would be required.

15. The staff also notes that it is not necessary for entities to reproduce the complete disclosures made in the latest annual financial report when providing the update described above. However, an entity will need to consider that disclosure when it provides an explanation of events and transactions that are significant to an understanding of the changes in its financial position and performance since its last annual reporting period.
16. Paragraph 16 of IAS 34 provides a list of explanatory notes that are required, at a minimum, for condensed interim financial reports. This list does not require specific disclosures about fair values.
17. In the staff's view, even though IAS 34 does not require specific fair value disclosures for condensed interim financial reports, it provides a clear principle for determining whether and when fair value disclosures would be required. Therefore, depending on the circumstances and the significance of those circumstances to the understanding of their financial position and performance, entities might be required to disclose information similar to disclosures required by IFRS 7.

Conclusion

18. In the staff's view, the issue raised in the submission is addressed sufficiently in IAS 34. This standard provides a clear principle for an entity to follow in making the judgements on which explanatory notes are required in its condensed interim financial reports. Therefore, if the IFRIC were to add this issue to its agenda, it would be providing implementation guidance rather than an interpretation.

Staff recommendation and questions to the IFRIC

Question 1 – Agenda decision

Based on the analysis in paragraphs 10 to 17, the staff recommends that the IFRIC not add this issue to its agenda. Does the IFRIC agree that the issue should not be added to the agenda?

Question 2 – Wording of agenda decision

Proposed wording for the tentative agenda decision is set out in the Appendix to this paper. Does the IFRIC have any comments on the proposed wording for the tentative agenda decision?

[Appendix A is omitted from Observer note]