Project	**Annual Improvement Project – 2008-2010 cycle - Comment letter analysis**
Topic	**IAS 34 *Interim Financial Reporting* – Significant events and transactions**

Introduction

1. In the *Annual Improvements* exposure draft published in August 2009, the Board proposed an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

2. The objective of this paper is:

   (a) To provide background information on the issue,

   (b) To analyse the comment letters we received, and

   (c) To recommend the IFRIC amend the wording from the exposure draft as proposed in Appendices A and B.

Background

3. This issue was discussed at the May 2009 IASB Board meeting, and the issue was set out in agenda paper reference 14 and can be found on the public website[1].

[1] http://www.iasb.org/Meetings/IASB+Board+Meeting+21+May+2009.htm

4. Some constituents raised the issue of whether particular disclosures required by IFRS 7 *Financial Instruments: Disclosures* should also be required in interim financial statements.

5. The Board noted that although IAS 34 does not require specific disclosures, it sets out disclosure principles to determine what information should be disclosed in an interim financial report.

6. The Board therefore concluded that amending IAS 34 to place greater emphasis on these principles and the inclusion of additional examples relating to more recent disclosure requirements (ie fair value measurements) would improve interim financial reporting.

Analysis of comments received

7. The Board received 70 comment letters on the 2009 Annual Improvements of which 61 commented on the subject of this paper.

8. The comment letters breakdown as follows:

Yes:	21
Yes, but expressed comments:	29
No:	11
Total:	61

Staff analysis in response to the comments raised

Specific questions 3 and 4 – adding guidance and requiring particular disclosures to be made in interim financial statements

9. Some constituents[2] disagree with requiring particular disclosures to be made in interim financial statements.

[2] ASB CL 2, Australian Accounting Standards Board CL 7, Bundesverband Offentlicher Banken Deutschlands CL 9, Group of 100 CL 21, Korea Accounting Standards Board (KASB) CL 22, Malaysian

10. These constituents agree with the disclosure principles in interim financial reporting that significant changes from the previous annual financial statements only should be shown.

11. Therefore, they see no reason why particular additional disclosures – namely fair value measurement disclosures – should be additionally required. One constituent[3] is of the opinion that any amendment would weaken the standard as it would suggest that explicit requirements need to be part of the standard to trigger the necessary disclosures.

12. Another constituent[4] suggest paragraph 16A states that the minimum disclosures be required only if significant and necessary to an understanding of the financial statements to ease the burden of providing too many disclosures.

13. The staff acknowledges that paragraph 15 of IAS 34 refers to events and transactions that are <u>significant</u>. However, the staff sees the use of the word <u>significant</u> as duplicating the materiality concept that covers all disclosures through IFRSs. Therefore the staff does not believe it useful to amend paragraph 16A any further.

14. Some[5] suggest these disclosures be included in guidance or illustrative examples of disclosures.

15. The staff notes that proposed paragraph 15B of IAS 34 lists different “types of events or transactions […]”. The staff is of the opinion that adding examples from IFRS 7 keeps IAS 34 consistent and up to date with other standards. Therefore the staff believes it is appropriate to add the proposed examples to the illustrative paragraphs for consistency purposes.

Accounting Standards Board (MASB) CL 28, Real Property Association of Canada CL 30, Norwegian Accounting Standards Board CL 31, ICAEW CL 33, ACTEO CL 40, Telstra CL 44, KPMG CL 52

[3] ACTEO CL 40

[4] BP CL 34

[5] Accounting Standards Council of Singapore CL 20, DTT CL 23, AFME CL 41, EY CL 47, KPMG CL 52

16. Other constituents[6] disagree with the proposed amendment because they consider proposed required disclosures unduly onerous to provide.

17. The staff believes that when preparing interim financial statements judgement is needed to determine whether the information is useful to users, based on guidance and illustrative examples set out in the standard.

18. In doing this amendment the intent of the Board was to focus on disclosure requirements in a positive way rather than only by difference from the annual financial statements.

19. One respondent[7] questions the reason for deleting paragraph 18 of IAS 34 and asks for clarification.

20. For ease of reference, paragraph 18 is reproduced below:

> Other IFRSs 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 IFRSs 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.

21. The staff acknowledges this paragraph was deleted because it basically repeats paragraph 10 of IAS 34 as regards what should be included in condensed financial statements. The objective of deleting paragraph 18 is to move the focus from what is not required - because already provided in the interim financial statements - to disclosures that are required. The staff believes a positive assessment of requirements helps preparers in the judgements they make to provide relevant disclosures. The staff believes the basis for removal of paragraph 18 should be stated in the Basis for Conclusions to the proposed amendment.

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[6] ASB CL 2, AASB CL 7, Bundesverband deutscher Banken CL 12, Group of 100 CL 19, Korea Accounting Standards Board (KASB) CL 22, Real Property Association of Canada CL 30, Norwegian Accounting Standards Board CL 31, PwC CL 32, Nestlé CL 42, Telstra CL 44

[7] Business Europe CL 13

Other drafting comments

22. Some constituents[8] suggest replacing "equivalent" in the last sentence of paragraph 15 of IAS 34 by "relevant". The last sentence would then read (proposed change underlined):

> Information disclosed in relation to those events and transactions should update the <u>relevant</u> information presented in the most recent annual report.

23. The staff believes this change is consistent with the general principle in IAS 34. "Relevant" brings in the notion of significance whereas "equivalent" refers to all disclosures whether significant or not. In addition, this change is consistent with the last sentence of paragraph 15C.

24. Some respondents[9] point out that using the word "significant" in paragraphs 15B(h) and (k) is confusing. They propose it be removed as paragraph 15 already focuses on "[…] events and transactions that are <u>significant</u> to an understanding of the changes" (emphasis added).

25. The staff agrees "significant" should be removed from paragraphs 15B(h) and (k).

26. Some constituents[10] are concerned that the last sentence of proposed paragraph 16A relates to events or transactions that are "necessary" to an understanding of the current interim period. They note this is a different wording than in paragraph 15 where events and transactions need be "significant". In their opinion, this could lead to confusion in the application of the standard.

27. The staff agrees with this comment and proposes deleting the last sentence of proposed paragraph 16A as it does not add to the general principle in IAS 34.

[8] DTT CL 23, PwC CL 32, EY CL 47, KPMG CL 52
[9] ASB CL 2, EY CL 47, EFRAG CL 49, KPMG CL 52, CNC CL 70
[10] EY CL 47, KPMG CL 52

28. One constituent[11] points out that the proposed amendment to paragraph 15B(l) refers to assets in a general way. They believe it would be useful to add “financial” in order to qualify the assets subject to changes in classification.

29. The staff acknowledges that paragraph 15B(l) specifically refers to the *Reclassification of Financial Assets* amendment published in November 2008. Therefore the staff agrees to add the word “financial” to avoid any potential confusion.

Staff recommendation

30. The staff recommends the proposed amendment be modified as proposed in Appendices A and B to include the drafting suggestions discussed in paragraphs 22 to 29 above.

31. As regards the removal of paragraph 18 – see paragraphs 19 and 20 above, the staff proposes in Appendices A and B the addition of a paragraph to the Basis for Conclusions that states the reason for the deletion of this specific paragraph.

Questions to the IFRIC

Question 1 – Staff recommendation
Does the IFRIC agree with the staff recommendation in paragraphs 30 and 31?

Question 2 – Proposed wording
Does the IFRIC agree with the proposed changes set out in Appendices A and B? If not, what wording would the IFRIC suggest?

[11] Mazars CL 51

Appendix A – Proposed drafting of final amendment

A1. This appendix includes the proposed drafting of the final amendment. It is based on the text included in the Bound Volume as of 1 January 2009. New text is underlined and deleted text is struck through.

Amendment to IAS 34 *Interim Financial Reporting*

In the rubric, 'paragraphs 1–48' is amended to 'paragraphs 1–49'. A heading and paragraph 15 are amended. Paragraphs 15A, 15B and 15C are added. Paragraphs 16–18 are deleted. A heading and paragraph 16A are added. Paragraph 49 is added. Paragraphs 15B and 16A were previously paragraph 17 and 16, respectively, and have been marked up solely to show changes from the pre-existing text.

Content of an interim financial report

~~Selected explanatory notes~~ Significant events and transactions

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 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 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 ~~is more useful~~. Information disclosed in relation to those events and transactions should update the relevant information presented in the most recent annual report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual report.

15B ~~Examples of the kinds of disclosures that are required by paragraph 16 are set out below. Individual IFRSs provide guidance regarding disclosures for many of these items:~~ The types of events or transactions for which disclosures would be required are set out below. The list is 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]~~ changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, notwithstanding whether these assets or liabilities are recognised at fair value or amortised cost;

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

(l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and

(m) changes in contingent liabilities or contingent assets.

[contains text from pre-existing paragraph 17 marked up for amendments]

15C Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. 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.

16-18 [Deleted]

Other minimum disclosures

16A Notwithstanding the requirements in paragraphs 15–15C, ~~A~~ 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:

(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.~~

[contains text from pre-existing paragraph 16 marked up for amendments]

Effective date and transition

49 A header and paragraph 15 were amended, paragraphs 15A–15C and 16A were added and paragraphs 16–18 were deleted by Improvements to IFRSs issued in April 2010. An entity shall apply the 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 amendment to IAS 34 *Interim Financial Reporting*

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

An appendix D is added that contains a heading and two paragraphs BC1 and BC2.

Appendix D

Significant events and transactions

BC1 IAS 34 was issued by the Board's predecessor body, the International Accounting Standards Committee (IASC), in 1998. In the light of recent improvements to disclosure requirements, many users of financial statements asked the Board to consider whether particular disclosures required by IFRS 7 Financial Instruments: Disclosures for annual financial statements should also be required in interim financial statements. The Board noted that although IAS 34 does not require specific disclosures, it sets out disclosure principles to determine what information should be disclosed in an interim financial report. The Board concluded that amending IAS 34 to place greater emphasis on these principles and the inclusion of additional examples relating to more recent disclosure requirements ie fair value measurements would improve interim financial reporting.

BC2 As part of the *Annual Improvements* 2008-2010 cycle, the Board decided to delete paragraph 18 of IAS 34 because it repeats paragraph 10 of IAS 34 and because the Board's intention is to emphasise those disclosures that are required rather than those that are not required.

Appendix B – Proposed drafting edits from Exposure Draft

B1. This appendix includes the proposed drafting edits from the proposed amendment included in the exposure draft of proposed Improvements to IFRSs published in August 2009. This appendix presumes all changes proposed in the exposure draft were accepted and only shows incremental changes newly recommended by the staff based on an analysis of the comment letters received. Incremental new text is double underlined and incremental deleted text is double struck through.

~~Proposed~~ a~~A~~mendment to IAS 34 *Interim Financial Reporting*

Paragraphs 15, 15B and 16A are amended.

Content of an interim financial report

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. Information disclosed in relation to those events and transactions should update the ~~equivalent~~ relevant information presented in the most recent annual report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual report.

15B The types of events or transactions for which disclosures would be required are set out below. The list is not exhaustive.

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

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15C Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. 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.

Other minimum disclosures

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