STAFF PAPER

April 2013

IASB Meeting

Project	**Annual Improvements (2012-2014 Cycle)**
Paper topic	IFRS 7 *Financial Instruments: Disclosure*—Applicability of the Amendments to IFRS 7 to condensed interim financial statements

CONTACT Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

Introduction

1. In January 2013, the IFRS Interpretations Committee ('the Interpretations Committee') received a request for guidance on the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('Amendments to IFRS 7') to condensed interim financial statements. In particular, the submitter asked the Interpretations Committee to clarify the meaning of "interim periods within those annual periods" as used in paragraph 44R of IFRS 7. The submitter noted there was uncertainty about whether the additional disclosure required by the Amendments to IFRS 7 should be included in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.

2. In its March 2013 meeting, the Interpretations Committee noted that the current wording of paragraph 44R has the potential to lead to divergent interpretations.

3. In the light of the fact that the IASB issued the Amendments to IFRS 7 fairly recently, the Interpretations Committee, before recommending that the IASB should amend IFRS 7 through Annual Improvements, requested the staff to consult the IASB in order to determine what the IASB's intention was.

Objective

4. The purpose of this paper is to ask what the IASB's intention was on the applicability of the Amendments to IFRS 7 to condensed interim financial statements.

Structure of the paper

5. This paper will therefore:

   (a) provide background information on the issue;

   (b) provide an analysis of the issue;

   (c) describe the different views and the consequences of each; and

   (d) ask the IASB what its intention was.

Background information

6. The IAS 34 defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes[1].

7. An entity should refer to paragraphs 15-15C of IAS 34 to determine whether an event or a transaction should be disclosed in its interim financial reports. In particular, paragraphs 15 and 15C state that:

   15 An entity shall include in its interim financial 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 shall update the relevant information presented in the most recent annual financial report.

   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 reporting period, its interim financial report should provide an explanation

[1] Paragraph 6 of IAS 34 states that: *In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. 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*.

of and an update to the relevant information included in the financial statements of the last annual reporting period.

8. The Amendments to IFRS 7 result from a joint project in which the IASB and the FASB agreed to require an entity to provide additional disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect on the entity's financial position of netting arrangements, including rights of setoff associated with the entity's recognised financial assets and recognised financial liabilities.

9. The additional disclosures required by the Amendments to IFRS 7 are set out in paragraphs 13A-13F and B40-B53 of IFRS 7. These disclosures do not directly reconcile the IFRS and US GAAP amounts; however, they provide both gross and net information on a comparable basis for financial instruments within the scope of both the IFRS and the US GAAP disclosure requirements. The boards considered that requiring a full reconciliation between IFRSs and US GAAP was unnecessary, particularly given the relative costs and benefits. Such reconciliation would have required preparers to apply two sets of accounting requirements and to track any changes to the related accounting standards and to contracts in the related jurisdictions.

10. In setting the effective date of the offsetting disclosures, the boards decided that the disclosures should be available as soon as possible.

Staff analysis

Description of the issue

11. The Amendments to IFRS 7 added to IFRS 7 paragraph 44R, which states [emphasis added]:

> 44R *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), issued in December 2011, added paragraphs IN9, 13A–13F and B40–B53. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 **and interim periods within those annual periods**. An entity shall provide the disclosures required by those amendments retrospectively.

12. The issue is whether the highlighted part of paragraph 44R requires that the additional disclosures required by Amendments to IFRS 7 (ie paragraphs 13A-13F and

B40-B53) should be included in condensed interim financial statements prepared in accordance with IFRS.

13. IAS 34 as a general observation is principles based. No consequential amendments were made to IAS 34 as a result of these offsetting disclosures. This is in contrast to the actions of the FASB – they included specific interim disclosure requirements in US GAAP (which is more typical of the treatment of interim disclosures under US GAAP).

14. The submitter notes that three views exist in practice:

   (a) **View 1—the additional disclosures are not required in condensed interim financial statements**. IAS 34 defines the minimum content of condensed interim financial statements and no consequential amendment was made to that Standard upon the issue of Amendments to IFRS 7.

   (b) **View 2—the additional disclosures are required in all sets of condensed financial statements for a period beginning on or after 1 January 2013**. Paragraph 44R of IFRS 7 is clear that these disclosures will be required in interim financial reports (condensed or otherwise), because it specifically refers to “interim periods”.

   (c) **View 3—the additional disclosures are required only in a condensed set of financial statements for an interim period during the year of first application of the Amendments to IFRS 7.** The reference to “interim periods” should be read as related to interim periods within the first annual period following application, not to all annual periods thereafter.

15. We will analyse these views in the following paragraphs.

View 1: the additional disclosures are not required in condensed interim financial statements

16. Proponents of this view note that IAS 34 defines the minimum content of a condensed set of interim financial statements and no consequential amendment was made to that Standard upon the issue of the Amendments to IFRS 7. IAS 34 continues to make no reference to the additional disclosures required by Amendments to IFRS 7.

17. They think that these disclosures, in interim financial reports, are only required to the extent that it is necessary to comply with the general requirements of paragraph 15 of

IAS 34 to provide 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. They note that paragraph 15C of IAS 34 states that: "…*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 reporting 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 reporting period*".

18. They also think that the inclusion of "interim periods" in paragraph 44R of IFRS 7 is only relevant if a complete set of financial statements (as described in IAS 1 *Presentation of Financial Statements*) is produced for an interim period, or if the information is required to be disclosed by paragraphs 15-15C of IAS 34. Consequently, paragraph 44R of IFRS 7 does not require the disclosure of information in interim periods incremental to those required by IAS 34.

View 2: the additional disclosures are required in all sets of condensed financial statements for a period beginning on or after 1 January 2013

19. Proponents of this view think that paragraph 44R of IFRS 7 is clear that the additional disclosures required by Amendments to IFRS 7 should be provided in all interim financial reports (ie condensed or otherwise), because the paragraph specifically refers to "interim periods" and IAS 34 provides no general exemption from requirements of other Standards that are specific to interim periods.

20. They note that paragraph 44R refers to "annual periods" and "interim periods", thereby implying that the disclosure requirements apply to all interim periods in multiple annual periods (ie not just interim periods within the first annual period immediately following application).

21. They also note that the intention of the Amendments to IFRS 7 was to establish common disclosure requirements with the FASB and that the FASB requires these disclosures in all interim periods.

22. They think that the offsetting disclosures should be presented in all interim periods because they provide comparable information in the absence of common offsetting requirements. These disclosures enable users of financial statements to compare the

effect, or potential effect, of rights of set-off related to financial instruments within the scope of both the IFRS and the US GAAP disclosure requirements.

View 3: additional disclosures are required only in a condensed set of financial statements for an interim period during the year of first application of the amendments to IFRS 7

23. Proponents of this view think that the reference to interim periods in paragraph 44R of IFRS 7 means that these disclosures will be required in at least some interim financial reports; otherwise the reference to interim periods would have been omitted.

24. They note that paragraph 44R of IFRS 7 refers to the first-time application of the Amendments to IFRS 7. Consequently, in their view, the reference to "interim periods" requires an entity to include the new offsetting disclosures within all the condensed interim financial statements issued in the first annual reporting period following the application of Amendments to IFRS 7.

25. They also think that the lack of amendments to IAS 34 means that this is not an ongoing requirement for all interim financial reports. The reference to "interim periods" should be read as being related to interim periods within the first annual period following application, not to all annual periods thereafter. Consequently, after the first year of application of Amendment to IFRS 7, an entity should refer to the "Significant events and transactions" criteria in paragraphs 15-15C of IAS 34 to determine whether it should include the additional disclosure required by Amendment to IFRS 7 in its condensed interim financial statements.

Staff analysis

26. We think that the current wording of paragraph 44R of IFRS 7 is not clear and that it should be clarified through Annual Improvements.

27. The effective date of the Amendments to IFRS 7 is 1 January 2013, so we think that it is too late to clarify whether the new offsetting disclosures should be included in the condensed interim financial statements issued in 2013 (ie the first annual reporting period following the application of Amendments to IFRS). However, we should clarify whether the new offsetting disclosures are required in all sets of condensed interim financial statements issued in subsequent years (ie from 2014 onwards).

28. In other words, we think that for practical reasons we can exclude View 3, because from 2014 onwards, there is no difference between View 1 and View 3. This is

because under both views, after the first year of application of Amendment to IFRS 7, an entity should apply the requirements of IAS 34. Consequently, in the paragraphs that follow, we provide a description of the advantages and disadvantages of View 1 and View 2.

View 1 versus View 2

29. In considering View 2, we note that it would ensure that, in each interim period, users of financial statements could compare the effect, or potential effect, of rights of set-off related to financial instruments within the scope of both the IFRS and the US GAAP disclosure requirements. However, as noted in paragraph 9 above, while it would improve comparability the offsetting disclosure will not enable users to make a full comparison of IFRS and US GAAP. In addition, in January 2013, the FASB amended the scope of its offsetting disclosure requirements by limiting their scope to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending arrangements[2].

30. We also note that the FASB requires the offsetting disclosures in all interim periods and they would therefore be more regularly available for US GAAP preparers than for IFRS preparers (if they apply View 1). It may be the case that to maximise comparability and to provide the greatest assistance to users of financial statements (particularly as a result of the failure of our attempt to align offsetting on the face of the financial statements between IFRS and US GAAP) that the IASB did wish interim disclosures of these amounts to be required.

31. In considering View 1, we note that it is consistent with the principles based approach of IAS 34 not to mandate specific disclosures but rather to require disclosures of the main changes in financial position and performance of the entity since the end of the last annual reporting period. IAS 34 prescribes the minimum disclosures of an interim financial report that complies with IFRSs; and those minimum disclosures do not include the offsetting disclosures.

32. According to View 1, in the absence of a consequential amendment to IAS 34, judgement is required in applying the "Significant events and transactions" criteria in

[2] For further details see Agenda Paper 8 (November 2012 IASB Meeting) http://www.ifrs.org/Meetings/MeetingDocs/IASB/2012/November/8-OD-1112.pdf

paragraphs 15-15C of IAS 34. Consequently, entities would only be required to provide the offsetting disclosures in interim periods if the disclosures were necessary to explain the changes in the entity's financial position and performance since the last annual reporting period. This means that entities with material amounts of financial instruments within the scope of the IFRS 7 offsetting disclosures (eg derivatives executed under a master netting arrangement) would present these disclosures in interim periods if the amounts of those financial instruments had changed significantly from the last annual reporting period. On the contrary, entities will not be obliged to present these disclosures every interim period if the amounts of those financial instruments had not changed from the last annual reporting period.

Questions for the IASB

1 Was the IASB's intention to require the offsetting disclosures in condensed interim financial statements? If yes, was the IASB's intention for periods after the first year of application of the Amendments to IFRS 7, to require these disclosures to be given in all interim periods, or only when they provide an explanation of the changes in financial position and performance of the entity since the end of the last annual reporting period?

2 If the IASB intended to require these disclosures in all interim periods, does the IASB want to amend IAS 34?