STAFF PAPER

IFRS Interpretations Committee Meeting

July 2013

Project	IFRS 7 *Financial Instruments: Disclosure*—Applicability of the Amendments to IFRS 7 to condensed interim financial statements		
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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 that 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 and requested the staff to consult the IASB in order to determine what the IASB's intention was.

3. At the April 2013 IASB meeting, the staff consulted the IASB on this issue. The IASB agreed that the additional disclosure required by the Amendments to

IFRS 7 is not specifically required for all interim periods after the first year of application of the Amendments to IFRS 7. However, the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34.

Objective

4. The purpose of this paper is:

   (a) to provide background information on this issue;

   (b) provide an analysis of the issue;

   (c) make a recommendation that the IASB should amend paragraph 44R of IFRS 7 through Annual Improvements; and

   (d) to ask the Interpretations Committee whether they agree with the staff recommendation.

Background information

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

6. 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

[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*.

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

7. 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.

8. 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 because of 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.

9. 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

10. 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.

11. 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 all condensed interim financial statements prepared in accordance with IFRS.

12. IAS 34 as a general observation is principle-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).

13. 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 relating to interim periods within the first annual period following application, not to all annual periods thereafter.

IASB tentative decision

14. We quote below an abstract of the April 2013 IASB Update:

> The IASB agreed that the additional disclosure required by the Amendments to IFRS 7 is not specifically required for all interim periods after the first year of application of the Amendments to IFRS 7. However, the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34. IAS 34 requires disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The IASB noted that an interim financial report should include an explanation of events and transactions that are significant to understanding the changes in financial position and performance of the entity since the end of the last annual reporting period.

Staff view

15. We note that 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 year of application of the Amendments to IFRS 7). For this reason we did not ask the IASB whether these disclosures should be included in the condensed interim financial statements issued in 2013

16. Regarding the subsequent years (ie 2014 onwards), as confirmed by the IASB, we think that the offsetting disclosures are required to be given in condensed interim financial statements when their inclusion would be required by IAS 34; because:

    (a) paragraph 44R is a transitional provision that will be effective only on the first application of the Amendments to IFRS 7; and

(b) IAS 34 was not consequentially amended. When the IASB wants to explicitly require an entity to provide some disclosure in condensed interim financial statements in all circumstances, it amends IAS 34[2].

17. We also note that any amendment to paragraph 44R will be effective after 1 January 2014 (ie after the first application of the Amendments to IFRS 7). Consequently, we think that because of the timing of this discussion relative to the effective date, we cannot clarify the requirements for including the new offsetting disclosures in condensed interim financial statements issued in 2013 (ie the first year of application of the Amendments to IFRS 7). However, in our view, we can clarify this issue for interim periods after the first year of application of the Amendments to IFRS 7.

18. In our view, the relevant requirements of IAS 34 that should be considered to determine whether IAS 34 requires the inclusion of the offsetting disclosures in condensed financial statements are the following:

> 10 ... Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.
>
> 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.
>
> 25 While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by

[2] For example, in the Revenue Recognition project in February 2013, the IASB tentatively decided to amend IAS 34 *Interim Financial Reporting* to require an entity to disaggregate revenue in its interim financial statements in accordance with paragraph 114 of the 2011 ED (as amended, as discussed above). For the other revenue disclosure requirements, the IASB observed that an entity would need to consider the general principles of IAS 34.

> itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

19. We think that according to the requirements above, disclosures should be given in condensed interim financial statements not only when they are significant to understanding a change in financial position and performance of the entity since the end of the last annual reporting period[3], but also when their omission would make the condensed interim financial statements misleading[4]. As explained in paragraph 25 of IAS 34, "*the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period"*.

20. In addition, we note that the objective of the Amendments to IFRS 7 is to provide information that will enable users of financial statements to evaluate the effect or *potential* effect of offsetting arrangements on an entity's financial position.

21. Consequently, we think that entities need to consider whether in interim periods the offsetting disclosures are relevant to understand their financial position and performance during the interim period.

[3] As required by paragraph 15 of IAS 34.

[4] As required by paragraph 10 of IAS 34.

Assessment against the annual improvements criteria

22. Our assessment of the issue against the annual improvements criteria is as follows:

In addition to the implementation and maintenance criteria, an AIP should (6.11, 6.12):	
Replace unclear wording or Provide missing guidance or Correct minor unintended consequences, oversights or conflict	Yes. In our view the wording of paragraph 44R of IFRS 7 is not sufficiently clear and has the potential to create divergence in practice. It may be clarified by deleting the reference to “interim periods within those annual periods”.
Not change an existing principle or propose a new principle	Yes. We are not changing an existing principle or proposing a new principle. The offsetting disclosures, in condensed interim financial statements, are required to the extent that it is necessary to comply with the principles of IAS 34 .
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	Yes. On this specific issue the IASB has already expressed its view. Consequently it should reach a consensus on a timely basis.

Staff recommendation

23. On the basis of the analysis above, we think that:

(a) it is too late to clarify the requirements for including the new offsetting disclosures in the condensed interim financial statements issued in 2013 (ie the first year of application of the Amendments to IFRS 7); and

(b) we should clarify that, from 2014 onwards, the offsetting disclosures are not explicitly required to be provided in condensed interim financial statements by IFRS 7 but are required to be given in condensed interim financial statements when their inclusion would be required by IAS 34.

24. On the basis of our assessment of the Interpretations Committee's annual improvements criteria, we think that the Interpretations Committee should recommend that the IASB should amend paragraph 44R of IFRS 7 through Annual Improvements in order to clarify that the additional disclosures required by the Amendments to IFRS 7 are required to be given in condensed interim financial statements prepared in accordance with IAS 34 when their inclusion would be required in accordance with the requirements of IAS 34.

25. Our proposed amendment to IFRS 7 is included in Appendix A of this paper.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree that from 2014 onwards, the offsetting disclosures are required to be given in condensed interim financial statements when their inclusion would be required by IAS 34? 2. Does the Interpretations Committee agree with the staff's recommendation that it should recommend to the IASB to clarify paragraph 44R of IAS 19 by deleting the reference to "interim periods within those annual periods"? 3. Does the Interpretations Committee have any comments on the proposed wording for the amendment to IFRS 7 in Appendix A?

Appendix A——Draft wording of the proposed amendment, showing differences from the currently effective Standard

A1 The proposed amendment to IFRS 7 is presented below.

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 44R is amended as follows: (new text is underlined and deleted text is struck through).

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.

<u>44X *Annual Improvements 2012–2014* cycle, issued in [date], amended paragraph 44R. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.</u>

Basis for Conclusions on proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

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

BC1 The IASB was asked to clarify 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, it was asked to clarify the meaning of "interim periods within those annual periods" as used in paragraph 44R of IFRS 7. There was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 should be included in condensed interim financial statements prepared in accordance with IFRS and if so, whether these should be presented in every set of condensed interim financial statements or only in those in the first year in which the disclosure requirements are effective or are governed by the principles in IAS 34 *Interim Financial Reporting* which was not changed as a result of these amendments to IFRS 7.

BC2 The IASB noted that the effective date of the Amendments to IFRS 7 is 1 January 2013 and that any amendment to paragraph 44R will be effective after 1 January 2014 (ie after the first application of the Amendments to IFRS 7). Consequently, the IASB noted that, because of the timing of this proposed amendment, it cannot clarify the requirements for including the additional disclosures introduced by the Amendments to IFRS 7 in the condensed interim financial statements issued in the first year of application of the Amendments to IFRS 7. However, the IASB decided to clarify this issue for interim periods after the first year of application of the Amendments to IFRS 7.

BC3 The IASB noted that paragraph 44R of IFRS 7 refers to the first-time application of the Amendments to IFRS 7 and that IAS 34 had not been consequentially amended. Consequently the IASB proposes to amend the paragraph in order to clarify that: the additional disclosure required by the Amendments to IFRS 7 is not specifically required for all interim periods after the first year of application of the Amendments to IFRS 7. However, in considering this amendment, the IASB noted that the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34. IAS 34 requires disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The IASB noted that an interim financial report should include an explanation of events and transactions that are significant to understanding the changes in financial position and performance of the entity since the end of the last annual reporting period. The overriding goal of the requirements of IAS 34 is to ensure that an interim financial report includes all information that is relevant to understanding an entity’s financial position and performance during the interim period.