STAFF PAPER

IFRS Interpretations Committee Meeting

March 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 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. We performed outreach on this topic with national accounting standard-setters and regulators. The results of this outreach are not included in this paper, because the deadline for replying to the outreach request is Monday 11 March. We will present the results of this outreach during the March 2013 Interpretations Committee meeting.

3. The submission is reproduced in full in Appendix B to this paper.

Objective

4. The objective of this paper is to:

   (a) provide background information on the issue raised in the submission;

   (b) provide an analysis of the issue;

   (c) present a preliminary[1] assessment of the issue against the Interpretations Committee's agenda criteria included in the *Due Process Handbook* issued in February 2013;

   (d) make a preliminary[2] recommendation that the IASB should amend IFRS 7 through Annual Improvements; and

   (e) ask the Interpretations Committee whether it agrees 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[3].

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 transactions shall update the relevant information presented in the most recent annual financial report.

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[1] Subject to the result of the outreach.

[2] Subject to the result of the outreach.

[3] 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.*

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 require an entity to provide disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.

8. The additional disclosures required by the Amendments to IFRS 7 are set out in paragraphs 13A-13F and B40-B53 of IFRS 7 (‘the additional disclosures’).

Staff analysis

Description of the issue

9. 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.

10. 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.

11. 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 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 adoption 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 adoption, not to all annual periods thereafter.

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

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

13. 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 issue of the Amendments to IFRS 7. IAS 34 continues to make no reference to the additional disclosures required by Amendments to IFRS 7.

14. 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*".

15. 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 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

16. 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.

17. 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 adoption).

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

18. 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.

19. They also think that the lack of amendments to IAS 34 means that this is not an ongoing requirement for all interim financial reports. Consequently, the reference to "interim periods" should be read as being related to interim periods within the first annual period following adoption, not to all annual periods thereafter.

Staff analysis and view[4]

20. We note that IAS 34 is a principles-based standard that prescribes the minimum content for an interim financial report to be described as complying with IFRSs. IAS 34 does not specifically address each IFRS, and judgement is necessary for each entity to faithfully present their financial position and results of operations in interim periods. Consequently, if a new requirement results in a consequential amendment to IAS 34, it is clear how that new requirement must be applied in

[4] We consulted with the staff members that worked on the Amendments to IFRS 7 in order to understand what they intended with the wording used in paragraph 44R.

interim periods. However, the absence of a consequential amendment to IAS 34 does not mean that a new requirement is automatically not required in interim periods—rather, judgment must be applied.

21. That said, in this case, we support View 3.

22. We note that paragraph 44R of IFRS 7 refers to the first-time application of the Amendments to IFRS 7. Consequently, in our 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. We also think that a first-time adopter should include these disclosures within all the condensed interim financial statements issued in the first annual reporting period following the adoption of IFRS. We have considered but concluded that a clarifying amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* is not necessary.

23. The additional disclosures required by Amendment to IFRS 7 are a result of requests from users of financial statements for information to enable them to compare statements of financial position prepared in accordance with IFRSs with those prepared in accordance with US GAAP. We think that the IASB’s intention was to ensure that these disclosures are provided as soon as possible. For this reason paragraph 44R refers to interim periods. Indeed, paragraph BC24AE of IFRS 7 states that: “…*For users of financial statements to benefit from the increased comparability, and because the offsetting and IFRS 9 projects are independent of one another, the boards decided that common disclosures should be effective as early as possible”*[5].

24. We understand that the plural reference in paragraph 44R (ie “interim periods within those annual period**s**”) is confusing but, we understand that the intention of the project team was to refer to entities having different year-ends (eg 30 June or 31 December).

[5]. Although this comment was made in the context of whether the effective date should be aligned with the effective date of IFRS 9, the IASB’s belief that the common disclosures should be effective as early as possible is nonetheless relevant to this paper.

25. We also think that after the first year of application of Amendment to IFRS 7, an entity should apply the requirements of IAS 34. Consequently, 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 after the first year of application. For this reason the IASB did not amend IAS 34 to require these disclosures on an ongoing basis after the first year of application.

Preliminary[6] agenda criteria assessment

26. We think that the current wording of paragraph 44R of IFRS 7 is not sufficiently clear. We expect that this issue will meet the agenda criteria established by the *Due Process Handbook* issued in February 2013, because in our view:

    (a) this issue has a widespread effect and is expected to have a material effect on those affected;

    (b) we expect divergence in practice in disclosing this information in interim financial reports and so financial reporting would be improved through the elimination of these diverse reporting methods;

    (c) the issue can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.

    (d) the issue is sufficiently narrow in scope and it is cost-effective for the Interpretations Committee, the IASB and interested parties to undertake the due process that would be required;

    (e) as explained in the Basis for Conclusions of Amendments to IFRS 7 "*the offsetting and IFRS 9 projects are independent of one another*"; so we expect that this clarification should be effective for a reasonable period of time; and

    (f) clarifying the existing wording of paragraph 44R maintains consistency with the existing principles, in particular with IAS 34.

[6] Subject to the result of the outreach.

27. An extract from the *Due Process Handbook* issued in February 2013 is provided in Appendix C of this paper.

Staff recommendation

28. On the basis of our technical analysis, we think that:

    (a) paragraph 44R of IFRS 7 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; and

    (b) an entity should refer to the requirements of IAS 34 to determine whether it should include these disclosures in its condensed interim financial statements after the first year of application. Consequently, these disclosures would not be included in an entity's 2014 condensed interim financial statements (for a calendar year end entity) unless otherwise required by IAS 34

29. On the basis of our preliminary[7] assessment of the Interpretations Committee's agenda criteria, we think that the Interpretations Committee should recommend that the IASB should amend IFRS 7 through Annual Improvements in order to clarify that paragraph 44R of IFRS 7 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 and that an entity should refer to the requirements of IAS 34 to determine whether it should include these disclosures in its condensed interim financial statements after the first year of application.

30. 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 with the staff's preliminary recommendation (ie subject to the results of the outreach, the Interpretations Committee should recommend that the IASB should amend IFRS 7 through Annual Improvements, in order to clarify that:

[7] Subject to the results of our outreach.

(a) paragraph 44R of IFRS 7 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; and

(b) an entity should refer to the requirements of IAS 34 to determine whether it should include these disclosures in its condensed interim financial statements after the first year of application)?

2. 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[8]

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~~ <u>the first</u> annual period~~s~~ <u>in which an entity applies those amendments</u>. 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 interim periods beginning on or after [date]. Earlier application is permitted. If an entity applies that amendment for an earlier interim 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.

Part of the business combination

BC1 The IFRS Interpretations Committee (the Interpretations Committee) was asked to clarify the meaning of 'interim periods within those annual periods' as used in paragraph 44R of IFRS 7. The interpretations Committee noted that 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 just those in the first year in which the disclosure requirements are effective.

[8] Subject to the result of the outreach.

BC2 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 *Interim Financial Reports* had not been consequentially amended. Consequently the IASB proposes to amend the paragraph in order to clarify that:

(a) paragraph 44R of IFRS 7 requires an entity to include the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 within all the condensed interim financial statements issued in the first annual reporting period following the first application of Amendments to IFRS 7; and

(b) an entity should refer to the requirements of paragraphs 15-15C of IAS 34 to determine whether it should include these disclosures in its condensed interim financial statements in subsequent years.

Appendix B—Submission

Dear Mr Upton,

Suggested agenda item – Applicability of the amendments to IFRS 7 - *Financial Instruments: Disclosures*, on offsetting financial assets and financial liabilities to condensed interim financial statements.

It has come to our attention that there are diverse views on the question of whether the requirements added to IFRS 7 in December 2011 to provide additional disclosures on offsetting financial assets and financial liabilities apply in condensed interim financial statements.

The amendments to IFRS 7 - *Financial Instruments: Disclosures* paragraph 44R state[9]:

"An entity shall apply these amendments for annual periods beginning on or after 1 January 2013 and **interim periods within those annual periods**." **[emphasis added]**

Does the highlighted text require the disclosures now required by paragraphs 13A-13F and B40-B53 of IFRS 7 to be included in condensed interim financial statements prepared in accordance with IFRSs?

Alternative views

No, the additional disclosures are not required in a set of condensed financial statements

Proponents of this view note that IAS 34 defines the minimum content of a condensed set of interim financial statements (as indicated in IAS 34.6) and no consequential amendment was made to that standard upon issue of the December 2011 amendments to IFRS 7. As the selected explanatory notes set out in paragraphs 15-15C and 16A of IAS 34 continue to make no reference to offsetting, disclosure of such arrangements is only required in a condensed set of financial statements as described in IAS 34 to the extent that it is necessary to comply with the general requirements of IAS 34.15-15C 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.

Proponents of this view consider that the inclusion of "interim periods" in IFRS 7:44R is only relevant if a complete set of financial statements (as described in IAS 1) is produced for an interim period or the information is required to be disclosed under IAS 34.15-15C. They believe that IFRS 7:44R does not establish a requirement to disclose information in interim periods incremental to those in IAS 34. Instead, the paragraph provides transition requirements in cases where an entity is required to disclose the information in interim periods under IAS 34.

[9] The submitter notes that the concurrent amendment made to IAS 32 in paragraph 97L make no reference to interim financial statements. Therefore this request is only applicable to the amendments to IFRS 7.

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

Proponents of this view consider that IFRS 7:44R is clear that these disclosures will be required in interim financial reports (condensed or otherwise) as it specifically refers to “interim periods” and IAS 34 provides no general exemption from requirements of other IFRSs specific to interim periods. Proponents also note that paragraph 44R refers to “annual periods” and “interim periods” thereby implying that the disclosure requirements apply to interim periods in multiple annual periods, i.e. not just interim periods within the first annual period immediately following adoption.

Proponents of this view further note that the intention of the December 2011 amendment was to establish common disclosure requirements with the FASB (see, for example, IFRS 7:BC24E) and that the FASB requires these disclosures in interim periods.

Additional disclosures are required only in a condensed set of financial statements for an interim period during the year of adoption of the amendments to IFRS 7

Proponents of this view consider that the reference to interim periods in IFRS 7:44R suggests that these disclosures will be required in at least some interim financial reports; otherwise the reference to interim periods would have been omitted (as it was for the concurrent amendment to IAS 32). However, proponents further consider that the lack of amendment to IAS 34:16A suggests that this is not an ongoing requirement for all interim financial reports. The reference to “interim periods” should be read as related to interim periods within the first annual period following adoption, not to all annual periods thereafter.

Reason for the Committee to address the issue

We believe that this issue should be addressed in a timely manner as it will be relevant to interim financial statements prepared in 2013 and, as noted above, we believe that the requirement as written has the potential to lead to divergent interpretations on an issue that has widespread relevance.

Appendix C—Extract from the *Due Process Handbook* (February 2013)

5.16 …The Interpretations Committee should address issues:

(a) that have widespread effect and have, or are expected to have, a material effect on those affected;

(b) where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and

(c) that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.

5.17 The issue should be sufficiently narrow in scope that it can be addressed in an efficient manner by the Interpretations Committee, but not so narrow that it is not cost-effective for the Interpretations Committee and interested parties to undertake the due process that would be required when making changes to IFRSs.

5.21 The solution developed by the Interpretations Committee should be effective for a reasonable period of time. Accordingly, the Interpretations Committee would not normally develop an Interpretation if the topic is being addressed in a forthcoming Standard. However, this does not prevent the Interpretations Committee from acting on a particular matter if the short-term improvements can be justified.

6.12 Clarifying a Standard involves either replacing unclear wording in existing Standards or providing guidance where an absence of guidance is causing concern. Such an amendment maintains consistency with the existing principles within the applicable Standard and does not propose a new principle or change an existing principle.

6.13 Resolving a conflict between existing requirements of Standards includes addressing oversights or relatively minor unintended consequences that have arisen as a result of the existing requirements of Standards. Such amendments do not propose a new principle or a change to an existing principle.

6.14 Proposed Annual Improvements should be well defined and narrow in scope. The IASB assesses proposed Annual Improvements against the criteria set out above before they are published in an Exposure Draft. As a guide, if the IASB takes several meetings to reach a conclusion it is an indication that the cause of the issue is more fundamental than can be resolved within the Annual Improvements process.