

STAFF PAPER

July 2014

IFRS Interpretations Committee Meeting

IFRS IC March 2014

Project	Finalisation of agenda decision
Paper topic	IAS 34 <i>Interim Financial Reporting</i> —condensed statement of cash flows
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. In March 2014, the IFRS Interpretations Committee (the Interpretations Committee) published a tentative agenda decision not to add to its agenda a request to clarify the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 *Interim Financial Reporting*.
2. The submitter observed that there are divergent views on the presentation and content of the condensed statement of cash flows. One view is that an entity should present a detailed condensed statement of cash flows showing cash flows by nature. Another view is that an entity may present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.
3. The Interpretations Committee noted the following requirements in IAS 34:
 - (a) “...each of the condensed statements shall include, at a minimum, each of the headings and subtotals there were included in the most recent annual financial statements; additional line items should be included if

their omission would make the interim financial statements misleading” (paragraph 10).

- (b) “An entity shall include 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” (paragraph 15); and
- (c) “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” (paragraph 25).

4. On the basis of the requirements in paragraphs 10, 15 and 25 of IAS 34, the Interpretations Committee noted that a condensed statement of cash flows should include all information that is relevant in understanding the entity’s ability to generate cash flows and the entity’s needs to utilise those cash flows, and that a three-line presentation would generally not meet the requirements in IAS 34.
5. The Interpretations Committee determined that an interpretation or an amendment to IFRSs was not necessary. Consequently, the IFRS Interpretations Committee decided to issue a tentative agenda decision that can be found in the [IFRIC Update of March 2014](#).

Purpose of the paper

6. The purpose of this paper is to:
 - (a) provide an analysis of the comments received on the tentative agenda decision; and
 - (b) set out the wording for the final agenda decision (see Appendix A).

Comment letter analysis

7. The comment period for the tentative agenda decision ended on 9 June 2014. We received four responses from:
- (a) Deloitte;
 - (b) AcSB Canada;
 - (c) the Brazilian Accounting Pronouncements Committee (CPC); and
 - (d) the European Securities and Markets Authority (ESMA), which was the original submitter of the issue raised on IAS 34.
8. These comment letters are attached to this paper.
9. The first three respondents agree with the Interpretations Committee's tentative decision not to add any of the issue raised on IAS 34 for the reasons set out in the tentative agenda decision.
10. The fourth respondent (ESMA) agrees with the Interpretations Committee's analysis and assessment of the issue, but thinks that the Interpretations Committee should instead clarify the guidance in paragraphs 10 and 15 of IAS 34 because it has observed some diversity in practice (even though not pervasive) in applying the requirements in IAS 34.
11. This respondent thinks that paragraph 10 of IAS 34 should be amended to require the "presentation of additional line items or notes in the interim financial statements not only if their omission would make the interim condensed financial statement misleading but also if they are relevant to understand the changes in the financial position, in the performance of the entity and in its cash flows that occurred since the end of the last annual reporting period". The submitter thinks that this information is needed to align the guidance in IAS 34 for preparing interim financial statements with the principle in IAS 1 *Presentation of Financial Statements* for including additional line items or notes in the annual financial statements. Paragraph 10 of IAS 34 is reproduced below (emphasis added):

10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed

statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. **Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.**

12. This respondent also observes that the reference to “changes in financial position and performance” in paragraph 15 of IAS 34 is unclear as to whether these changes also include the changes in an entity’s cash flows. This paragraph is reproduced below (emphasis added):

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

13. Consequently, the submitter thinks that paragraph 15 should be amended to explicitly state that an interim financial report should include information that is significant to an understanding of the changes in an entity’s cash flows since the end of the last annual reporting period.

Staff analysis

Request to amend paragraph 10 of IAS 34 to require the presentation of additional line items or notes if they are relevant

14. The respondent suggests amending paragraph 10 of IAS 34 to require the presentation of ‘additional line items’ in the interim financial statements if they are relevant to understand the entity’s changes in financial position and performance.

15. The objective of this proposal is to align the requirements in IAS 34 for preparing condensed financial statements with the guidance in IAS 1 for presenting financial statements. In this respect we understand that the respondent is referring to paragraphs 55 and 85 of IAS 1 which require the presentation of “additional line items, headings and subtotals in the statement of financial position and in the statement of profit or loss and other comprehensive income, when such presentation is relevant to understand an entity’s financial position and performance”.
16. We observe that in IAS 34, an interim financial report provides an update on the events and transactions that have occurred since the last complete set of financial statements.
17. The objective of an interim financial report according to paragraph 15 of IAS 34 is to provide “information that is significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period”. We observe that the inclusion of additional line items is required by paragraph 10 “their omission would make the condensed interim financial statements misleading”.
18. We observe that the main objective of an interim financial report is to provide information that is significant. We think that in some cases this objective could be met by management presenting additional line items but we accept that there could be other ways to provide this information depending on the circumstances; for example, by including information in the notes to the condensed financial statements. Consequently, we do not think that paragraph 10 of IAS 34 should be amended to require the presentation of ‘additional line items’.
19. We also think that the requirements in paragraph 10 of IAS 34 should not be aligned with the requirements in paragraph 55 and 85 of IAS 1. In our view an interim financial report (that contains a set of condensed financial statements and is prepared in accordance with IAS 34) is not meant to provide the same degree of detail as intended for a set of annual financial statements (that is prepared in accordance with IAS 1). We observe that in accordance with paragraph 6 of IAS 34 an interim financial report provides “an update on the latest complete set of

annual financial statements”; and information on “new activities, events, and circumstances and does not duplicate information previously reported”.

20. Furthermore, we observe that at its meeting in April 2014¹ the IASB decided to do some additional research on the disclosure of interim financial information, because the extent of interim disclosure requirements has been the subject of debate in recent projects. In this respect paragraph 34 of [agenda paper 11](#) presented at the April 2014 IASB meeting reported the following:

“Some users of financial statements argue that information in interim financial reports should provide the same degree of detail and transparency as is provided in annual reports. Hence, they are concerned about the current degree of disclosure relief in IAS 34 *Interim Financial Reporting*. Others are of the view that reporting interim financial information should be considered in accordance with IAS 34 as an update and therefore interim financial statements should not provide the same degree of detail as provided in annual financial statements”.

21. We observe that this additional research will be done under of the scope of the Principles of Disclosure research project that forms part of the IASB’s Disclosure Initiative².
22. Consequently, we do not think that the requirements in paragraph 10 of IAS 34 for presenting condensed financial statements be amended at this time.

Request to extend the requirement in par 15 to refer explicitly to “changes in an entity’s cash flows”

23. The respondent proposes to include an additional reference in paragraph 15 to state that an interim financial report should include information that is significant to an understanding of the “changes in an entity’s cash flows”. This is because the respondent thinks that the reference to “changes in financial position and

¹ Refer to the [IASB Update of April 2004](#).

² The timing for this project has not been decided yet.

performance” in paragraph 15 of IAS 34 is unclear as to whether these changes also include the changes in an entity’s cash flows.

24. We observe that the term “financial performance” is explained in paragraphs OB15-OB20 in Chapter 1 “The Objective of General Purpose Financial Reporting” of the IASB’s *Conceptual Framework*.
25. In accordance with paragraph OB17 and paragraph OB20, the financial performance of an entity is assessed through:
- (a) accrual accounting, which depicts the effects of transactions and other events and circumstances on a reporting entity’s economic resources and claims in the periods in which those effects occur and changes in those resources and claims (paragraph OB17 –OB18); and
 - (b) information about a reporting entity’s cash flows during a period (paragraph OB20).
26. More specifically, in accordance with:
- (a) paragraph OB18 (emphasis added):
an entity’s financial performance during a period, reflected by changes in its economic resources and claims indicates the extent to which the reporting entity has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations; and
 - (b) paragraph OB20 (emphasis added):
information about cash flows helps users understand a reporting entity’s operations, evaluate its financing and investing activities, assess its liquidity or solvency and **interpret other information about financial performance.**
27. On the basis of the guidance in the *Conceptual Framework* we are of the view that:

- (a) to properly assess an entity's financial performance and financial position, users need to be able to obtain information about the changes in an entity's economic resources and claims. We are of the view that only a set of condensed financial statements (that contains condensed statements of financial position, profit or loss and cash flows) could provide such information; and
 - (b) the current definition of 'financial performance' already requires an understanding of the changes in an entity's cash flows
28. Consequently, we disagree with the respondent's proposal to amend paragraph 15 because we think that the current requirement to present information about the entity's performance includes information about the entity's cash flows.

Staff recommendation

29. On the basis of this analysis, we propose to the Interpretations Committee that the agenda decision should be finalised without any further changes.
30. We have set out the wording for the final agenda decision in **Appendix A** of this paper.

Questions for the Interpretations Committee

Question for the Interpretations Committee

Does the Interpretations Committee agree with our recommendation to finalise the agenda decision?

Appendix A—Final agenda decision

A1. We propose the following wording for the final agenda decision.

IAS 34 *Interim Financial Reporting*—condensed statement of cash flows

The Interpretations Committee received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 *Interim Financial Reporting*.

The submitter observed that there are divergent views on the presentation and content of the condensed statement of cash flows. One view is that an entity should present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity may present a three-line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.

The Interpretations Committee noted that a condensed statement of cash flows is one of the primary statements that is included as part of an interim financial report as prescribed by paragraph 8 of IAS 34. Paragraph 10 of IAS 34 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals there were included in the most recent annual financial statements. Paragraph 10 also requires additional line items to be included if their omission would make the interim financial statements misleading.

The Interpretations Committee also noted that in an interim financial report:

(a) an entity shall include 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" (paragraph 15 of IAS 34).

(b) 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 (paragraph 25 of IAS 34).

In this respect, the Interpretations Committee noted that to meet the requirements in paragraphs 10, 15 and 25 of IAS 34 a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows, and that a three-line presentation would generally not meet the requirements in IAS 34.

On the basis of the analysis above, the Interpretations Committee determined that an interpretation or an amendment to IFRSs was not necessary. Consequently, the IFRS Interpretations Committee {decided} not to add this issue to its agenda.

Appendix B—comment letters submitted

(included in the following page)

**Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom**

Re: The IFRS Interpretations Committee's tentative agenda decision on IAS 34 - *Interim Financial Reporting*: condensed statement of cash flows

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the March IFRIC Update of the tentative decision related to application of IAS 34 – *Interim Financial Reporting*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its agenda the request for clarification¹ it received on the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements.

ESMA welcomes the IFRS IC assessment that a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and its needs to utilise those cash flows, and that a three-line presentation of statement of cash flows would generally not meet the requirements in IAS 34.

ESMA agrees with the IFRS IC that an explicit prohibition of a three-line presentation of statement of cash flows in IAS 34 would be inconsistent with the principle-based nature of IFRSs. However, in light of the existing diversity in practice, ESMA believes that a clarification of paragraphs 10 and 15 of IAS 34 would enhance enforceability of IFRSs.

In particular, ESMA understands that market participants have different views on whether changes in financial position and performance of the entity since the end of the last annual reporting period referred

¹ Letter: Agenda item request: Condensed statement of cash flows, ESMA/2013/1554, 30 October 2013



to in paragraph 15 of IAS 34 specifically include changes in the entity's cash flows. Therefore, ESMA suggests that the current requirement is extended to include explicitly explanation of events and transactions significant to the understanding of the changes in the entity's cash flows.

Furthermore, ESMA believes that the threshold for including additional line items or notes in the interim financial statements in paragraph 10 of IAS 34 could be lowered. ESMA suggests that the paragraph is amended to require presentation of additional line items or notes in the interim financial statements not only if their omission would make the interim condensed financial statement misleading but also if they are relevant to understanding the changes in the financial position, in the performance of the entity and in its cash flows that occurred since the end of the last annual reporting period. This would allow aligning the guidance for interim financial statements more closely with the principles for including additional line items or notes in the financial statements in IAS 1 – *Presentation of financial statements*.

ESMA believes that these suggested amendments to IAS 34 would contribute to consistency in application and enhance enforceability of IAS 34 requirements.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M' with a flourish.

Steven Maijor
Chair
European Securities and Markets Authority



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June 9, 2014

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decisions arising from the Committee's March meeting

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decisions published in the March 2014 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's tentative decisions not to add any of the four items to its agenda. In the case of the issues involving IAS 12, IAS 34 and IAS 39, we agree with the Committee's stated reasons for its conclusions.

In the case of the IAS 1 issue, we cannot identify a clear, direct statement of the Committee's reason(s) for not taking that issue onto its agenda. We think it might help constituents if such a statement could be drafted into the final version of the decision. In that connection, we note the Committee's final agenda decision on issue IAS 1-5 in July 2010.

We do not understand the comment in the discussion of the IAS 1 issue that paragraph 122 of that standard would apply to going concern. Paragraph 122 deals with disclosures of judgments made in applying an entity's accounting policies. We do not think that a judgment as to whether an entity is a going concern is a matter of accounting policy. Rather, it is a judgment of fact concerning a more fundamental issue. The discussion of going concern within IAS 1 is separated from paragraph 122 by

almost 100 paragraphs of discussion on other topics, which suggests that they are not closely related issues. If the Committee nevertheless continues to think that paragraph 122 does apply to going concern uncertainties, it could propose to the IASB that going concern be added to the list of examples in paragraph 123 through an annual improvement. However, we think that, if any clarification to IAS 1 is desirable, a more logical approach would be to add to the disclosure requirement in the third sentence in paragraph 25 of IAS 1. That sentence could be amended to add a requirement to disclose the judgments made in concluding whether there are material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. Readers of IAS 1 would be more likely to notice and apply such a requirement while considering the other going concern requirements than if the disclosure requirement were included in paragraphs 122-123.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Rebecca Villmann, Director-designate, Accounting Standards at +1 416 204-3464 (email rvillmann@cpacanada.ca).

Yours truly,

A handwritten signature in black ink that reads "Peter Martin". The signature is written in a cursive, slightly slanted style.

Peter Martin, CPA, CA
Director, Accounting Standards

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

9 June 2014

Dear Mr Upton

Tentative agenda decision - IAS 34 *Condensed Financial Statements*: Condensed statement of cash flows

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the requirements regarding the presentation and content of the condensed statement of cash flows in interim financial statements.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader



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Brasília, Distrito Federal – Brazil
www.cpc.org.br

May 30, 2014

ifric@ifrs.org

International Accounting Standards Board
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach Request - IAS 34 – Condensed Statement of Cash Flows

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Outreach Request – IAS 34 – Condensed Statement of Cash Flows.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Background of the issue

The Interpretations Committee received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 Interim Financial Reporting.

The submitter observed that there are divergent views on the presentation and content of the condensed statement of cash flows. One view is that an entity should present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity may present a three line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities.

The Interpretations Committee noted that a condensed statement of cash flows is one of the primary statements that is included as part of an interim financial report as prescribed by paragraph 8 of IAS 34. Paragraph 10 of IAS 34 specifies that each of the condensed statements shall include, at a minimum, each of the headings and subtotals there were included in the most recent annual financial statements. Paragraph 10 also

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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requires additional line items to be included if their omission would make the interim financial statements misleading.

The Interpretations Committee also noted that in an interim financial report:

- a. an entity shall include 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” (paragraph 15 of IAS 34).
- b. 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 (paragraph 25 of IAS 34).

In this respect, the Interpretations Committee noted that to meet the requirements in paragraphs 10, 15 and 25 of IAS 34 a condensed statement of cash flows should include all information that is relevant in understanding the entity’s ability to generate cash flows and the entity’s needs to utilise those cash flows, and that a three-line presentation would generally not meet the requirements in IAS 34.

On the basis of the analysis above, the Interpretations Committee determined that an interpretation or an amendment to IFRSs was not necessary. Consequently, the IFRS Interpretations Committee [decided] not to add this issue to its agenda.

Our comments

We conclude that the arguments considered by the Interpretations Committee to decide not to require an interpretation or an amendment to IFRSs are consistent and conceptually reasonable. In fact, the three-line presentation of the Statement of Cash Flows seems to be too summarized to meet the objectives of accounting information, even in a condensed format.

Also, we notice that this rationale is consistent with the accounting practice in Brazil. Here, in general, entities adopt the same structure of a full statement of cash flows even for condensed statements purpose. For quarterly financial information of public companies, there is a standard format requested by the Brazilian regulator that is quite similar to the full cash flow statement.



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Thus, we support the decision made by the Interpretations Committee related to this project.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior', written in a cursive style.

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)