

STAFF PAPER

March 2014

IFRS Interpretations Committee Meeting

Project	Tentative agenda decision
Paper topic	IAS 34 <i>Interim Financial Reporting</i>—condensed statement of cash flows
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Introduction

1. In January 2014 the IFRS Interpretations Committee (the Interpretations Committee) analysed a request from the European Securities and Markets Authority (ESMA) (the submitter) 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 had observed that there were divergent views on the application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows.
3. The Interpretations Committee concluded that an amendment to IAS 34 was not required because the principle in paragraph 10 of IAS 34 is clear that an entity should present condensed information in the interim financial statements that is not misleading.
4. The Interpretations Committee directed the staff to draft a tentative agenda decision that would reflect the existing principles in IAS 34 for presenting condensed financial information in the interim period.

Purpose of the paper

5. The purpose of this paper is to provide the Interpretations Committee with a draft of a tentative agenda decision that reflects the conclusions reached at the January 2014 meeting and ask the Interpretations Committee whether it agrees.

Staff analysis

6. We think that the tentative agenda decision should reflect the principle identified by the Interpretations Committee in paragraph 10 of IAS 34, which is to present condensed information in the interim financial statements that is not misleading.

This paragraph is reproduced below:

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.**

7. We think that the tentative agenda decision should also reflect some other principles that we have identified in IAS 34 for the presentation of condensed information in the interim financial statements.
8. We observe that paragraph 15 in IAS 34 requires an entity to include an explanation of events and transactions that are significant to understand the changes reflected in the interim period. This paragraph states that (emphasis added):

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.

9. Paragraph 23 in IAS 34 requires an entity to make an assessment of materiality in relation to the interim period financial data. This paragraph states that (emphasis added):

In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

10. Paragraph 25 in IAS 34 further states that (emphasis added):

While **judgement is always required in assessing materiality**, this Standard bases **the recognition and disclosure decision** on data for the interim period by 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**

11. Consequently, we think that the tentative agenda decision should note that to prevent a condensed interim statement of cash flows from being misleading, an entity should include in this interim financial report:

- (a) all information that is relevant to understanding an entity's financial position and performance during the interim period; and

- (b) 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.
12. We think that the tentative agenda decision should also note that in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in the context of the interim financial report.

Staff recommendation

13. On the basis of our analysis above, we have set out proposed wording for the tentative agenda decision in **Appendix A**.

Question to the Interpretations Committee

Does the Interpretations Committee agree with the wording of the tentative agenda decision as shown in **Appendix A** of this paper?

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

A1. We propose the following wording for the tentative 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 application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows. One view is that an entity could present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view is that an entity could 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 observed that the underlying principle in paragraph 10 of IAS 34 for the presentation of condensed information in the interim financial statements is that an entity should present condensed financial information that is not misleading. Consequently, a condensed interim statement of cash flows should include sufficient financial information to ensure that it is not misleading.

The Interpretations Committee observed that to prevent a condensed interim statement of cash flows from being misleading, an entity should include in its interim financial report:

- (a) all information that is relevant to understanding of an entity's financial position and performance during the interim period, in accordance with paragraph 25 of IAS 34; and
- (b) 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, in accordance with paragraph 15 of IAS 34.

The Interpretations Committee further observed that in accordance with paragraph 23 of IAS 34, materiality shall be assessed in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes in the context of the interim financial report.

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