STAFF PAPER

13 – 14 May 2014

IFRS Interpretations Committee Meeting

Project	**Annual Improvements to IFRSs 2012-2014 Cycle (ED/2013/11)—Comment letter analysis**
Paper topic	IFRS 7 *Financial Instruments: Disclosure*—Applicability of the Amendments to IFRS 7 to interim financial statements

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Introduction

1. The Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the ED) includes a proposal to clarify that the additional disclosure required by the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* ('Amendments to IFRS 7') is not specifically required for all interim periods. However, the additional disclosure is given in condensed interim financial statements that are prepared in accordance with IAS 34 *Interim Financial Reporting* when its inclusion would be required by the requirements of IAS 34.

Objective

2. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IFRS 7 and to obtain a recommendation from the IFRS Interpretations Committee (the Interpretations Committee) for the IASB to include the amendment in the final *Annual Improvements to IFRSs 2012-2014 Cycle* that is planned to be published later in 2014.

Structure of the paper

3. This paper:

   (a) provides a description of the issue that led to the proposed amendment;

   (b) analyses the comments received as part of the Exposure Draft process; and

   (c) asks the Interpretations Committee to confirm whether it agrees with the staff recommendation.

Description of the issue

4. The Interpretations Committee was asked to clarify the applicability of the 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, 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.

5. The issue arose because there was uncertainty about whether the offsetting disclosures required by the Amendments to IFRS 7 (ie 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.

6. The proposal is to delete the words "and interim periods within those annual periods" from paragraph 44R of IFRS 7.

Comment letter analysis

7. In this section, we discuss and analyse the main comments received from interested parties on the ED during the comment period, which ended on 13 March 2014.

8. The ED asked two general questions that were answered individually for each proposed amendment:

   (a) *Question 1: Do you agree with the IASB's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?*

   (b) *Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?*

9. The IASB received 64 comment letters on the ED in total; 37 respondents expressed their views on the proposed amendment to IFRS 7.

Analysis of Question 1

10. Almost all the respondents agree with the proposal.

11. The main comments received and our responses are as follows.

12. ASCB commented that:

> We agree with the amendment as it underlines the principle of IAS 34. However, it does neither explicitly nor implicitly answer the question of whether such offsetting disclosures should be made in condensed interim financial statements. We deem this question being of particular interest for the financial sector. One specific reason is that financial statements prepared in accordance with IFRSs are often compared with those in accordance with US GAAP, with both not facing identical requirements with regard to offsetting (and disclosure) requirements. Thus, it is expected that uncertainty (and incomparability) will remain as to whether, and when, these offsetting disclosures are required in the context of condensed interim financial reports.

13. We think that the question asked to the Interpretation Committee was whether an entity should provide the offsetting disclosures in every interim period (as required by US GAAP) or only when they are required by IAS 34. In our view, the proposed amendment addresses this question, because it clarifies that an entity should provide these disclosures only when required by the principles in IAS 34. We also note that the relevant requirements of IAS 34 are summarised in paragraph BC 7 of the proposed amendment.

14. Deloitte commented that:

> We agree with the proposed amendment, but note that the confusion over the current transitional provisions of the IFRS 7 amendments on offsetting highlights a wider issue over the extent to which disclosures are required in interim financial statements when a new or amended standard is adopted for the first time. This issue is pervasive to interim financial statements and the level of disclosure on the nature and effect of a change in accounting policy (as required by paragraph 16A(a) of IAS 34) is currently unclear. In particular, it is unclear whether disclosures explaining the application of the new accounting policy that will be included in the forthcoming annual financial statements are also required in interim financial statements. We recommend that the Board consider an amendment to IAS 34 to clarify the level of disclosure required in interim financial statements when accounting policies change and, specifically, whether explanatory disclosures that will be included in annual financial statements are required. These issues are is likely to become more significant as major new standards on, for example, revenue from contracts with customers are adopted.

15. We think that this is a wider issue that cannot be addressed in this annual improvement; however we will report this comment to the IASB.

16. KPMG commented that:

(a) We generally agree with the Board's proposal to clarify that…. However, we are concerned about the wording in paragraph BC7 of the proposed amendments stating that "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". Although we recognise that part of this wording is consistent with paragraph 25 of IAS 34, it is included there only in the context of materiality judgements. This wording is different from, and broader than, that which appears in the objective paragraph of IAS 34 and it could be read as implying a level of disclosure almost as extensive as that required in annual IFRS financial statements. We therefore recommend that this sentence in the basis for conclusions be deleted to leave the discussion in paragraph BC7 to end with the statement consistent with the guidance in paragraph 15 of IAS 34 that an "interim financial report should include an explanation of events and transactions that are significant for understanding the changes in financial position and performance of the entity since the end of the last annual reporting period".

17. We think that the last sentence of paragraph BC7 is not necessary. Consequently we agree with the proposal to delete the sentence: *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.*

Analysis of Question 2

18. Almost all the respondents agree with the proposed transitional requirements and the proposed effective date.

19. The main comments received and our responses are as follows.

20. Grant Thornton commented that:

    (a) We agree. As noted in our response to Issue 2 we also suggest that proposed paragraph 44Z should be amended to specifically permit an entity to make independent choices regarding early application of this amendment and/or the accompanying amendment to paragraphs B30 and B30A of IFRS 7.

21. We disagree with this proposal, because we think that permitting such an independent choice could cause confusion to users of financial statements.

22. Mazars commented that:

    (a) As far as this amendment relates to disclosures (whether in interim or annual financial statements), we do not understand what retrospective application means. Comparative information in the notes to financial statements is previous year figures in relation to disclosures that have to be provided for current year, rather than disclosures that were provided in previous year financial statements. We thus favour prospective application.

23. We note that the retrospective application is already required by the Amendments to IFRS 7. Indeed, paragraph 44R of IFRS 7 states that: …*An entity shall provide the disclosures required by those amendments retrospectively.* For this reason, we propose to apply the amendment to paragraph 44R retrospectively.

Staff recommendation

24. On the basis of the analysis in the previous section of the paper, we think that the Interpretations Committee should recommend to the IASB that it should proceed with the proposed amendment to paragraph 44R of IFRS 7.

25. We also recommend that the last sentence of paragraph BC7 should be deleted.

Questions to the IFRS Interpretations Committee
1. Does the Interpretations Committee agree to recommend to the IASB that it should proceed with the proposed amendment to paragraph 44R of IFRS 7? 2. Does the Interpretations Committee agree with the proposed amendment to the Basis for Conclusions (ie deleting the last sentence of paragraph BC7)?