

## STAFF PAPER

13–14 May 2014

## IFRS Interpretations Committee Meeting

IFRS IC Nov 2012  
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Project	<b><i>Annual Improvements to IFRSs 2012–2014 Cycle (ED/2013/11) comment letter analysis</i></b>		
Paper topic	IAS 34 <i>Interim Financial Reporting</i> —Disclosure of information ‘elsewhere in the interim financial report’		
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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. The Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* (the ‘ED’), published in December 2013, includes a proposal for an amendment to IAS 34 *Interim Financial Reporting* to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

## Objective

2. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IAS 34 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 Cycle that is planned to be published 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 to proceed with the proposed amendment.

## Description of the issue

4. The Interpretations Committee received a request to clarify the meaning of ‘interim financial report’ in IAS 34. The submitter noted that the definition of interim financial report in paragraph 4 of IAS 34 was not sufficiently clear with regard to whether the interim financial report covers only the information reported under IFRS (meaning the IFRS interim financial statements) or whether it also more generally includes management reports or other elements in addition to IFRS interim financial statements.
5. The IASB noted that paragraph 16A of IAS 34 explicitly states that the information required by this paragraph could be given elsewhere in the interim financial report and, consequently, considered that this information could be provided outside the interim financial statements.
6. The IASB proposed to amend paragraph 16A of IAS 34 through annual improvements to clarify the meaning of disclosure of information elsewhere in the interim financial report and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

## Comment letter analysis

7. In this section, we discuss and analyse the comments received from interested parties on the ED during the comment period, which ended on 13 March 2014.
8. The ED asked two questions that were answered individually for each proposed amendment:

- (a) Question 1: Do you agree with the IASB’s proposal to amend the Standards as described in the Exposure Draft? If not, why and what alternative do you propose?
  - (b) Question 2: Do you agree with the proposed transition provisions and effective date for the issue as described in the ED? If not, why and what alternative do you propose?
9. The IASB received 64 comment letters on the ED; three-quarters of the comment letters include views on the proposed amendment to IAS 34.

### **Analysis of Question 1**

10. With respect to the respondents who replied to Question 1:
- (a) about one-third of the respondents agreed with the proposed amendments to IAS 34;
  - (b) one-third agreed with the proposed amendments, subject to clarifications being made which are discussed later; and
  - (c) one-third disagreed with the proposed amendments.

### **Agreement**

11. The respondents who *support* the proposed amendments think that it will:
- (a) improve the ability of users of interim financial report to find relevant information;<sup>1</sup>
  - (b) avoid duplication of the same information by incorporating a cross-reference from the financial statements;<sup>2</sup>
  - (c) achieve consistency with other Standards, for example, paragraph B6 of IFRS 7 *Financial Instruments: Disclosures*;<sup>3</sup> and

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<sup>1</sup> Financial Reporting Council (FRC) and Autorite des Normes Comptables (ANC).

<sup>2</sup> The Japanese Institute of Certified Public Accountants (JICPA).

<sup>3</sup> KPMG and Grant Thornton.

- (d) improve the understandability of interim financial reporting.<sup>4</sup>

***Conditional agreement and disagreement***

- 12. With respect to Question 1:
  - (a) about one-third of the respondents who replied to this question agreed with the proposed amendment to IAS 34 subject to further clarifications.
  - (b) about one-third of the respondents who replied to this question disagreed with the proposed amendment.
  
- 13. Respondents who conditionally agree or disagree with the proposed amendment expressed the following comments:
  - (a) Issue 1—the proposed amendment is not necessary;
  - (b) Issue 2—the proposed amendment is too broad;
  - (c) Issue 3—asked the IASB to clarify the meaning of ‘interim financial report’; and
  - (d) Issue 4—asked the IASB to clarify the wording in paragraph 16A of IAS 34; more specifically the meaning of ‘on the same terms as the interim financial statements’ and ‘at the same time’.

**Staff analysis and recommendation**

***Issue 1—the proposed amendment is not necessary***

- 14. Some respondents think that the proposed amendment is not necessary because:
  - (a) the meaning of ‘elsewhere in the interim financial report’ is already clear in IAS 34;<sup>5</sup> and

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<sup>4</sup> Institute of Certified Public Accountants of Kenya (ICPAK), RSM International Limited, Zambia Institute of Chartered Accountants (ZICA), some members of the International Organisation of Securities Commissions (IOSCO).

<sup>5</sup> The Institute of Chartered Accountants in England and Wales.

- (b) relevant information should be disclosed in the notes to the interim financial statements, rather than elsewhere, to facilitate the analysis of this information by users and the review by auditors.<sup>6</sup>
15. Moreover, other respondents<sup>7</sup> note that the proposed amendment is too prescriptive and would add unnecessary detail and clutter to the interim financial reports, which could undermine the understandability and comparability of the interim financial statements.

*Staff analysis and recommendation*

16. We disagree with the views expressed by the respondents that the proposed amendment is not needed. We think that the proposed amendment to paragraph 16A of IAS 34 is needed to eliminate the ambiguity that exists in determining whether the information required to be disclosed elsewhere in the interim financial report may be presented in the notes to the financial statements or elsewhere. In this respect the proposed amendment clarifies that the disclosures in paragraph 16A(a)–(k) of IAS 34 can be provided in different locations thereby eliminating the existing ambiguity.
17. We also observe that the inclusion of a cross-reference from the interim financial statements to the location of the information, that is required by IAS 34 but that is presented outside the financial statements, would be helpful in alerting a reader to the location of that information.
18. Based on this we think that the Interpretations Committee should recommend the IASB to proceed with the proposed amendment to IAS 34.

***Issue 2—the proposed amendment is too broad***

19. Other respondents think that the proposed amendment is too broad because:

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<sup>6</sup> Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF), Brazilian Committee for Accounting Pronouncements (CPC) and Group of Latin-American Accounting Standard Setters (GLASS).

<sup>7</sup> Confederation of Swedish Enterprise, BP plc, Macquarie University’s Department of Accounting and Corporate Governance, The Institute for the Accountancy Profession in Sweden (FAR) and some members of IOSCO.

- (a) it may expand the extent of the disclosures provided outside the financial statements;<sup>8</sup>
  - (b) it will allow all disclosures to be presented in other parts of the interim financial report whereas, at present, IFRS 7 is the only Standard that allows information about risk disclosures to be presented outside the annual financial statements;<sup>9</sup> and
  - (c) only certain information should be required to be cross-referenced rather than all information (for example, explanatory comment about the seasonality or cyclically of interim operations, rather than all the requirements of paragraph 16A of IAS 34)<sup>10</sup>.
20. One respondent further notes that the incorporation of information via cross-reference is not permitted by some capital market regulators.<sup>11</sup>

*Staff analysis and recommendation*

21. We disagree that the proposed amendment is too broad or that it is expanding the number of disclosures that can be provided outside the financial statements. This is because we observe that only the disclosures in paragraph 16A(a)–(k) of IAS 34 can be provided either in the interim financial statements or outside the financial statements, as long as such disclosures are incorporated to the interim financial statements by cross-reference.
22. Moreover, we observe that the regulators who sent us their comments generally agreed with the proposed amendment to IAS 34 and did not raise any concern on the fact that cross-references are not permitted by capital market regulators. We also observe that this amendment permits, but does not require, the placing of disclosures outside the financial statements. Consequently, an entity that is not permitted by its regulator to present information outside the financial statements is not required to do so.

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<sup>8</sup> Some members of IOSCO; and CINIF.

<sup>9</sup> European Securities and Markets Authority (ESMA) and Moore Stephens LLP.

<sup>10</sup> Moore Stephens LLP.

<sup>11</sup> Deloitte.

23. Based on this we think that the Interpretations Committee should recommend the IASB to proceed with the proposed amendment to IAS 34.

***Issue 3—the proposed amendment does not clarify the meaning of an ‘interim financial report’***

24. Some respondents observe that the IASB has not clarified the meaning of interim financial report<sup>12</sup> and a few of them observe that the interim financial report is a single document; nevertheless, the proposed amendment seems to suggest that the interim financial report includes multiple documents<sup>13</sup>.

*Staff analysis and recommendation*

25. We agree with the respondents who think that an interim financial report is *a* single financial report, because we note that paragraph 4 of IAS 34 defines an interim financial report as *a* financial report. This paragraph is reproduced (emphasis added):

*a financial report* containing either a complete set of financial statements (as described in IAS 1 *Presentation of Financial Statements* (as revised in 2007)) or a set of condensed financial statements (as described in this Standard) for an interim period.

26. However, we disagree with those respondents who think that the IASB should clarify the definition of an interim financial report because:
- (a) paragraph 4 states that *an* interim financial report includes a set of condensed financial statements for an interim period; and
  - (b) paragraph 8 of IAS 34 states that *an* interim financial report includes a set of condensed financial statements and selected explanatory notes.
27. On the basis of the guidance in paragraphs 4 and 8 of IAS 34, we do not think that the proposed amendment should clarify:
- (a) the meaning of an interim financial report; or
  - (b) that an interim financial report constitutes a single document.

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<sup>12</sup> Business Europe, The Swedish Financial Reporting Board and Swiss Holdings.

<sup>13</sup> CBN, EY, GLASS and FAR.

28. Nevertheless, we think that that the Interpretations Committee should recommend to the IASB to explain that the proposed amendment is not extending the scope of the interim financial report. This is because we observe that the disclosures required in paragraph 16A (a)–(k) of IAS 34 are part of the selected explanatory notes (and consequently part of the interim financial report) despite those disclosures being presented in another location outside the financial statements. Without these disclosures, the interim financial report would be incomplete.
29. We have incorporated these clarifications in agenda paper 17E(i).

***Issue 4—clarify the wording in paragraph 16A of IAS 34***

30. Some respondents think that the IASB should explain the meaning in paragraph 16A of IAS 34 of providing disclosures ‘on the same terms as the interim financial statements’ and of providing disclosures ‘at the same time as the interim financial statements’.<sup>14</sup>

*Staff analysis and recommendation*

31. We think that the meaning of providing disclosures ‘*on the same terms* as the interim financial statements’ could be further clarified. In our view this term means that users should have access to the referenced material on the same basis and on the same terms as they have for accessing the financial statements where the reference is made from. We do not think that the meaning of providing disclosures ‘at the same time as the interim financial statements’ should be further clarified because we think that this phrase is self-explanatory and does not need further clarification.
32. We have incorporated this clarification in agenda paper 17E(i).

**Analysis of Question 2**

33. A great majority of the respondents who replied to Question 2 fully agree with the proposed transitional provisions to apply the proposed amendments retrospectively.

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<sup>14</sup> Financial Executives International, Mazars, Repsol, The Hong Kong Association of Banks (HKAB), The Linde Group, European Financial Reporting Advisory Group (EFRAG), Accounting Standards Committee of Germany, Federation of Accounting Professionals in Thailand and Deloitte.



34. Consequently, we think that the Interpretations Committee should recommend the IASB to continue requiring the application of the proposed amendments on a retrospective basis.

### Staff recommendation

35. On the basis of the analysis in this paper, we think that the Interpretations Committee should recommend to the IASB that it should proceed with the proposed amendment to IAS 34.
36. We also propose the Interpretations Committee to recommend to the IASB to make some changes to the proposed amendments to IAS 34 to make them clearer.
37. The staff draft of the wording for the proposed amendments to IAS 34 is presented in agenda paper 17E(i). These amendments are summarised below:
- (a) clarify that that the proposed amendment is not extending the scope of the interim financial report, because the disclosures required in paragraph 16A(a)–(k) of IAS 34 are part of the selected explanatory notes (and consequently part of the interim financial report) despite those disclosures being presented in another location outside the financial statements. Without these disclosures, the interim financial report would be incomplete; and
  - (b) explain in the Basis for Conclusions of the proposed amendment the meaning of disclosures made available to users *on the same terms* as the interim financial statements. This phrase means that users should have access to the referenced material on the same basis and on the same terms as they have for accessing the financial statements where the reference is made from

### Questions to the Interpretations Committee

#### Questions to the IFRS Interpretations Committee

1. Does the Interpretations Committee agree to recommend to the IASB that it should proceed with the amendments to IAS 34 and add further changes that would make the proposed amendments clearer?
2. Does the Interpretations Committee have any comments on our proposed amendments to IAS 34, as shown in agenda paper 17E(i)?