

STAFF PAPER

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IASB® meeting

Project	Primary Financial Statements		
Paper topic	Amendments to IAS 34 <i>Interim Financial Reporting</i>		
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Purpose of this paper

1. This paper considers possible amendments to IAS 34 *Interim Financial Reporting* to reflect the Board's tentative decisions in the Primary Financial Statements project.

Staff recommendations

2. The staff recommend that the Board amend IAS 34 to require entities, in their condensed interim financial statements, to:
 - (a) provide the set of information about management performance measures (MPMs) that will be provided in their annual financial statements.
 - (b) apply, in the first year of application only, the amended requirements for subtotals in the statement(s) of financial performance. That is – entities will be required to present the subtotals in their condensed interim financial statements during the first year of application of the new requirements.

Structure of this paper

3. This paper is structured as follows:
 - (a) Background (paragraphs 4–8)

- (b) What is the issue? (paragraphs 9–10)
- (c) Disclosure of MPMs in interim financial statements (paragraphs 11–15)
- (d) Subtotals in the first year of application (paragraphs 16–23)

Background

4. The Board has tentatively decided to propose various changes to the structure and content of a *complete set* of financial statements. A complete set of financial statements is usually prepared annually.
5. In addition to annual financial statements, many entities choose or are required to prepare interim financial statements. If interim financial statements are described as complying with IFRS Standards, they must comply with the requirements of IAS 34. Paragraph 4 of IAS 34 states that an interim financial report can either contain a complete set of financial statements as described by IAS 1 *Presentation of Financial Statements*, or a set of condensed financial statements as described by IAS 34.
6. While recognition and measurement are generally the same in annual and interim financial statements (see paragraphs 28–42 of IAS 34), there are significant differences in presentation and disclosure. Paragraph 6 of IAS 34 explains that:
 - (a) an entity may be required to or may elect to provide less information at interim dates compared with its annual financial statements in the interest of time and cost, or to avoid repetition of information previously reported.
 - (b) 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.
7. IAS 34 sets out the minimum content of condensed interim financial statements as including:
 - (a) condensed primary financial statements—paragraph 10 of IAS 34 requires that such statements include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. It further states

that additional line items shall be included if their omission would make the condensed interim financial statements misleading.

- (b) selected explanatory notes, including:
 - (i) an explanation of significant events and transactions since the end of the last annual reporting period (paragraph 15 of IAS 34).
 - (ii) a specified list of disclosures (paragraph 16A of IAS 34)—for example, fair value disclosures for financial instruments and limited segment information. This list also includes a requirement to disclose ‘the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence’ (paragraph 16A(c)).

8. Paragraph 4 of IAS 1 explains that IAS 1 does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34—except for paragraphs 15–35 of IAS 1, which do apply to such financial statements. These paragraphs cover general features of financial statements, such as going concern, materiality, aggregation and offsetting.

What is the issue?

9. The Board needs to consider whether and how its tentative decisions in the project should be reflected in requirements for interim reporting. In making this decision, the Board will need to strike a balance between the following objectives:
- (a) providing relevant and timely information to users of interim financial statements; and
 - (b) the objective of interim financial reports, as outlined in paragraph 6, to provide only an update on the latest complete set of annual financial statements, in the interest of time and cost for preparers.

10. For each of the Board’s tentative decisions:
- (a) the first column in the table below analyses whether the decisions would apply to the condensed interim financial statements as a result of applying existing requirements in IAS 34 and/or IAS 1; and
 - (b) the second column analyses whether there is an issue for the Board to consider regarding their application to condensed interim financial statements.

Project area	Required applying the existing requirements of IAS 34?	Is there an issue for the Board to consider?
Management performance measures (MPMs)	No.	We think the Board should consider whether the requirements for MPMs should apply to condensed interim financial statements. See further analysis in para. 11–15.
Defined & required subtotals in the statement(s) of financial performance	Yes—subtotals in interim financial report need to be the same as in the last annual financial statements (see paragraph 7(a)).	The new subtotals will only be required in interim financial statements <i>after</i> they have been included in the first <i>annual</i> financial statements—we think the Board should consider whether the new subtotals should be required in condensed interim financial statements during the first year of application of any new or revised Standard. See further analysis in para. 16–23.
Disaggregation—analysis of operating expenses by nature	No—IAS 34 has no specific requirement for analysis of operating expenses by function or nature in the condensed statement(s) of financial performance. An entity can present fewer line items in its condensed financial statements than in its annual financial statements as long as their omission would not make the financial statements misleading (see paragraph 7(a)). Consequently, there is also no requirement to analyse operating expenses by nature if an entity reports analysis by function.	A requirement to provide an analysis of operating expenses by nature would be responsive to demands from some users. However, we think such a requirement would be inconsistent with the objective of condensed interim financial statements (see paragraph 6(b)) We do not consider this issue further in this paper.
Disclosure of unusual items	IAS 34 includes a requirement to disclose unusual items (see paragraph 7(b)(ii)). However, this requirement describes unusual items differently to the Board’s proposals.	We will propose a consequential amendment to replace the description of unusual items in IAS 34 with the Board’s proposed definition of unusual items. We do not discuss this issue further in this paper.

Disaggregation principles	The section in IAS 1 that deals with aggregation and disaggregation applies to condensed financial statements (see paragraph 8)—the proposed revised guidance on disaggregation would also apply. As is currently the case, the guidance would apply in the context of the objective of condensed interim financial statements and materiality would be assessed in relation to the interim period financial data.	No issue.
Additional minimum line items	No—IAS 34 does not require minimum line items for condensed financial statements (see paragraph 7(a)).	No issue.
Statement of cash flows—classification of interest & dividends	Yes—an entity is required to present cash flows from operating, investing and financing activities applying the definitions in IAS 7. Those definitions will be amended by the project.	No issue.

Disclosure of MPMs in interim financial statements

11. Alternative performance measures are often used to communicate information about performance when interim reports are released. Based on analysis of interim financial reports using a sample of 85 entities, the staff observed that 66 entities include alternative performance measures, which are similar to MPMs, in their interim financial reports.

12. During outreach, some users of financial statements have asked for information about MPMs to be included in interim financial statements. This is because the disclosures we are proposing (see paragraphs 22–27 of the appendix to AP21 for the full set of proposed MPM requirements) would allow users to better understand MPM information released at the same time as the interim financial statements. In other words, requiring information about MPMs in interim financial reports would provide users with transparent information about MPMs and allow them to analyse all aspects of an entity’s performance on a timely basis. We therefore recommend amending

paragraph 16A of IAS 34 to require entities to disclose information about MPMs in their interim condensed financial statements.

13. However, in outreach, some preparers have said that the information about the income tax and NCI effects of MPMs could be costly to prepare. The Board could therefore consider not requiring disclosure of these effects in condensed interim financial statements.
14. However, the staff recommend that the Board require the full set of MPM disclosures, including income tax and NCI effects of MPM adjustments, in condensed interim financial statements because:
 - (a) users have told us that information about the tax and NCI effect of MPM adjustments is useful in their analysis. Not requiring this information in condensed interim financial statements could undermine the usefulness of the MPM disclosures that are provided.
 - (b) the Board has already provided cost relief for determining the effect of tax of MPM adjustments by stating that entity shall ‘determine such income tax effects based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned; or by another method that achieves a more appropriate allocation’.
15. Although this approach would mean full MPM requirements apply to interim condensed financial statements, consistent with the objective of condensed interim financial statements (see paragraph 6(b)), entities need not duplicate previously reported information about MPMs—for example, information about why management thinks an MPM communicates the entity’s performance.

Question 1

Does the Board agree with the staff recommendation to require entities to provide the same set of information about MPMs in their condensed interim financial statements that will be provided in their annual financial statements?

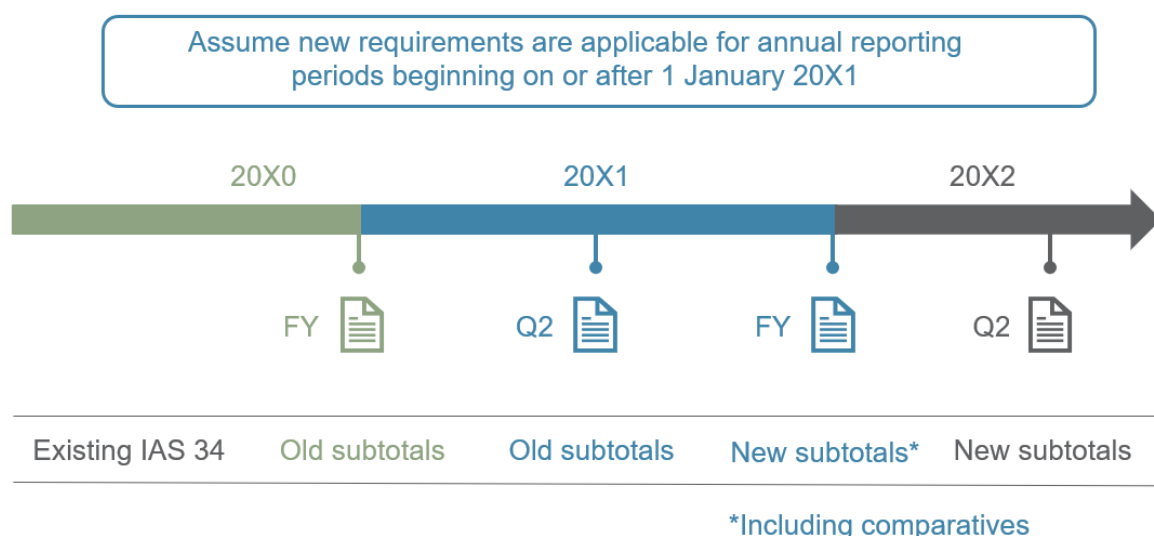
Subtotals in the first year of application

16. The annual financial statements of an entity in the year before they apply the new requirements resulting from this project will either:
 - (a) not contain any subtotals in the statement(s) of financial performance other than those that are already explicitly required under previous requirements; or
 - (b) contain additional subtotals that the entity presents in accordance with the requirement in paragraph 85 of IAS 1, which may be defined differently from the new proposed subtotals.

17. Applying the requirement in IAS 34 to present, as a minimum, the same subtotals as in the most recent annual financial statements:
 - (a) entities in (a) above may elect, but will not be required to, present the new proposed subtotals in the condensed interim financial statements in the initial year of application; and
 - (b) entities in (b) above may be prevented from presenting the new proposed subtotals as they would be required to present the subtotals they presented in the most recent annual financial statements.

18. The staff think that the outcomes described in paragraph 17 could be confusing. In addition, if the Board agrees with our recommendation in paragraph 14 and entities are required to disclose an MPM reconciliation in their condensed interim financial statements, they would be required to reconcile their MPMs to the ‘most comparable IFRS-defined subtotal’. However, the most comparable IFRS-defined subtotal may not be reported in the condensed interim financial statements as explained in paragraphs 16–17.

19. The figure below illustrates the issue:



20. The Board could consider amending the IAS 34 requirements for the presentation of subtotals:

- (a) to address the issue described in paragraph 18; and
- (b) to provide users with the benefits of the Board’s new defined subtotals earlier than would otherwise be the case.

21. We considered an approach which would amend paragraph 10 of IAS 34 to require entities to present the subtotals that would be required applying the IFRS Standards that will be effective at the next annual reporting date. However, we rejected this approach because it would constitute a fundamental change to IAS 34 and be a somewhat disproportionate response to what is only an issue on transition to the new requirements.

22. Instead, we recommend requiring entities, in the first year of application only, to apply the amended requirements for subtotals in the statement(s) of financial performance to their condensed interim financial statements. That is – entities will be required to present the subtotals in their interim financial statements during the first year of application of the new requirements. For example, the entity in the figure in paragraph 19 would present the new subtotals in their Q2 20X1 interim financial

statements. From 20X2 onwards, the entity will present the new subtotals applying the existing paragraph 10 of IAS 34 (see paragraph 7(a)).

23. The staff recommend this approach because it tackles a transition issue with a targeted solution.

Question 2

Does the Board agree with staff recommendation to require entities, in the first year of application only, to apply the amended requirements for subtotals in the statement(s) of financial performance to their interim financial statements? That is – entities will be required to present the subtotals in their condensed interim financial statements during the first year of application of the new requirements.