

## STAFF PAPER

November 2012

## IFRS Interpretations Committee Meeting

Project	New items for initial consideration
Paper topic	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 IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify the meaning of “interim financial report” in IAS 34. The submitter thinks that the definition of the term “interim financial report” in paragraph 4 of IAS 34 is not sufficiently clear with respect to whether the “interim financial report” covers only the information reported under IFRS (meaning the IFRS interim financial statements) or more generally also includes management reports or other elements in addition to IFRS interim financial statements.
2. Consequently, the submitter has come across divergent interpretations of the IFRS requirements with respect to disclosure of information “elsewhere in the interim financial report” in paragraph 16A of IAS 34.
3. This agenda paper is organised as follows:
  - (a) Summary of the issue
  - (b) Staff analysis
  - (c) Outreach request
  - (d) Annual improvements criteria assessment
  - (e) Agenda criteria assessment
  - (f) Staff recommendation

- (g) Appendix A—Proposed amendments
- (h) Appendix B—Submission.

### Summary of the issue

4. The issue is whether the required information “elsewhere in the interim financial report” should be provided in the notes to the interim financial statements or may be presented elsewhere. Paragraph 16A of IAS 34 explicitly refers to disclosure of information “elsewhere in the interim financial report” (emphasis added).

In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed **elsewhere in the interim financial report**. The information shall normally be reported on a financial year-to-date basis.

(a)...

5. The submitter argues that there is diversity in practice on whether the disclosure requirement of paragraph 16A can be provided in a management report (outside the interim financial statements). The submitter raised this issue by taking an example of an entity that faces a significant going concern issue.
6. The example from the submitter illustrates a situation that cast significant doubt upon the entity’s ability to continue as a going concern. However, the entity did not included a disclosure note in the interim financial statements explaining the uncertainties, along with all available information taken into account by management in order to conclude that the going concern assumption is appropriate. The submitter refers to two current practices:

*View 1 - all required disclosures should be included in the interim financial statements*

7. On the basis of the fact that the management report included in the half-year financial report is not part of the financial statements, the proponents of View 1

argue that any disclosure that is required by IAS 34 should be included in the interim financial statements. The example of a required disclosure that the submitter gives in the submission is that of a note explaining uncertainties relating to events and conditions that cast significant doubt upon the entity's ability to continue as a going concern together with all available information that was taken into account by management in order to conclude that the going concern assumption is appropriate.

*View 2 - some of the disclosures required by IAS 34 may be given in the interim financial report, but outside of the interim financial statements*

8. Paragraph 16A of IAS 34 requires including the information in the notes to its interim financial statements if not disclosed "elsewhere in the interim financial report". Proponents of View 2 argue that the interim financial report comprises the interim financial statements plus other information, which can include the interim management report. Consequently those who support View 2 maintain that the interim management report is part of the interim financial report. Consequently, in their view, providing the information in the interim management report, when that interim management report forms part of the interim report, meets the requirements of IAS 34.
  
9. Paragraph 8 of IAS 34 describes the minimum content of an interim financial report. Paragraphs 15, 15A and 15B do not clearly indicate whether the required disclosures should be provided in the notes to the interim financial statements or elsewhere. In their view, because this is the minimum content of an interim financial report, it can also contain a management report. Accordingly, proponents of View 2 suggest that disclosures required should be those paragraphs that could be provided in the management report instead of in interim financial statements.

## Staff analysis

### *Meaning of the “interim financial report”*

10. According to paragraph 4 and 20 of IAS 34, an interim financial report contains or includes a complete set of financial statements or a set of condensed financial statements. Paragraph 4 of IAS 34 states:

*Interim financial report* means 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.

This means that an interim financial report could contain either the complete or condensed interim financial statements.

11. Because paragraph 16A explicitly says that the information required by that paragraph could be given elsewhere in the interim financial report, it does not have to be included in the notes to the interim financial statements. Thus, the interim financial report may include, in addition to IFRS interim financial statements, management reports or other elements.
12. In researching this issue we learnt that one of the considerations given by some when IAS 34 was developed, was that because interim financial statements are seldom audited, whether certain required information was presented in the interim financial statements or elsewhere in the interim financial report. The distinction between interim financial statements and elsewhere in the interim financial report was not seen as so critical.

### *Placement of disclosure within the financial reports*

13. This issue on the meaning of the interim financial report is likely to be caused by an ambiguous position on whether information belongs in the notes to the financial statements or in management commentary. The IASB noted the issue of placement in developing the IFRS Practice Statement *Management Commentary* and acknowledged that until the Conceptual Framework project is completed, overlap will exist between the type of information that is disclosed in the notes to

the financial statements and the type of information that is disclosed in management commentary (paragraphs BC50-52 of the IFRS Practice Statement *Management Commentary*).

14. However, IFRS 7 *Financial Instruments: Disclosures* would be a good example for helping resolve questions of placement before the Conceptual Framework project is completed. IFRS 7 permits management to provide required risk disclosures either in the financial statements or in management commentary, if the disclosure in management commentary is cross-referenced from the financial statements and management commentary is provided at the same time and under the same terms as the financial statements. Paragraph B6 of IFRS 7 states:

The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

15. Consequently, we think that it would be appropriate to include a cross-reference from the interim financial statements to the location of this information, even though IAS 34 does not require a cross-reference to the disclosures presented elsewhere. Paragraph 113 of IAS 1 requires an entity to present notes in a systematic manner, and cross-reference would be consistent with doing that.

### **Outreach request**

16. We sent a request for information to the International Forum Accounting Standard Setters (IFASS) and securities regulators International Organization of Securities Commissions (IOSCO) and European Securities and Markets Authority (ESMA) in order to help assess the Interpretations Committee's agenda criteria. The

request was still outstanding (due 8 November 2012) when this agenda paper was completed. Specifically, we asked:

*In your jurisdiction, is there diversity in practice in interpretation of the IFRS requirements with respect to disclosure of information “elsewhere in the interim financial report” in relation to paragraph 16A of IAS 34? Please describe the predominant approach that you observe in your jurisdiction, eg is it common for information required by IAS 34 to be disclosed to be included “elsewhere in the interim financial report”, and if yes, please describe the information and where it is presented.*

We will present any update at the November Interpretations Committee meeting.

### **Annual improvements criteria assessment**

17. In planning whether an issue should be addressed by amending IFRSs within the Annual Improvements project, the IASB assesses the issue against certain criteria. All the criteria (a)–(d) must be met to qualify for inclusion in annual improvements. We have assessed the potential amendment against the annual improvements criteria, which are reproduced in full below:

<b>Annual improvements criteria</b>	<b>Staff assessment of the proposed amendment</b>
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<b>Annual improvements criteria</b>	<b>Staff assessment of the proposed amendment</b>
<p>(a) The proposed amendment has one or both of the following characteristics:</p> <p>(i) clarifying—the proposed amendment would improve IFRSs by:</p> <ul style="list-style-type: none"> <li>• clarifying unclear wording in existing IFRSs, or</li> <li>• providing guidance where an absence of guidance is causing concern.</li> </ul> <p>A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.</p> <p>(ii) correcting—the proposed amendment would improve IFRSs by:</p> <ul style="list-style-type: none"> <li>• resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirements should be applied, or</li> <li>• addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.</li> </ul> <p>A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.</p>	<p>(a) Yes.</p> <p>The proposed amendment clarifies the meaning of disclosure of information “elsewhere in the interim financial report” and provides guidance on how to present notes in a systematic manner.</p>
<p>(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.</p>	<p>(b) Yes. The issue is sufficiently narrow in scope to ensure that the proposed amendment has been considered sufficiently and identified.</p>
<p>(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.</p>	<p>(c) Yes. We think that the IASB will reach a conclusion on this issue on a timely basis.</p>
<p>(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.</p>	<p>(d) No. However, there is a need to resolve the issue sooner than would be expected from the planned project. The IASB has recently restarted the project on the Conceptual Framework and expects to publish a discussion paper in Q2 2013. The IASB expects to finish the project by September 2015.</p>

## Agenda criteria assessment

18. The staff's preliminary assessment of the agenda criteria is as follows:

(a) *The issue is widespread and has practical relevance.*

To be updated once the outreach activity is completed.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). An item will not be added to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

To be updated once the outreach activity is completed.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Conceptual Framework, and the demands of the interpretation process. The issue should be sufficiently narrow in scope to be capable of interpretation, but not so narrow that it is not cost-effective for the Interpretations Committee and its constituents to undertake the due process associated with an interpretation?*

Yes.

(e) *It is probable that the Interpretations Committee will be able to reach a consensus on the issue on a timely basis.*

Yes, we think that a consensus can be reached on a timely basis.

(f) *If the issue relates to a current or planned IASB project, there is a pressing to provide guidance sooner than would be expected from the IASB activities. The Interpretations Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Interpretations Committee requires to complete its due process.*



There is a need to resolve the issue sooner than would be expected from the planned project. The IASB has recently restarted the project on the Conceptual Framework and expects to publish a discussion paper in Q2 2013. The IASB expects to finish the project by September 2015.

**Staff recommendation**

19. We propose amendments to 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 as provided in paragraph 16A of Appendix A to this paper. This cross-reference could be a way to present notes in a systematic manner in accordance with paragraph 113 of IAS 1.
  
20. In the same manner as the disclosure requirement in IFRS 7, those disclosures should be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time.

**Question to the Interpretations Committee**

Does the Interpretations Committee agree with the staff recommendation that amendments to paragraph 16A of IAS 34 should be made to clarify the meaning of disclosure of information “elsewhere in the interim financial report”?

## Appendix A—Proposed amendments

A1. The proposed amendment in IAS 34 is presented below. New text is underlined and amended text is struck through.

- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, ~~if not disclosed or~~ elsewhere in the interim financial report. The disclosures below shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to the other part of the interim financial report that is available to users of the interim financial statements on the same terms as the interim financial statements and at the same time. Without the information incorporated by cross-reference, the interim financial statements are incomplete. The information shall normally be reported on a financial year-to-date basis.
- (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.
  - (b) explanatory comments about the seasonality or cyclicity of interim operations.
  - (c) 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.
  - (d) ....

**Basis for Conclusions on proposed amendments to IAS 34 *Interim Financial Reporting***

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

- BC1 The IASB proposes amendments to paragraph 16A of IAS 34 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. If disclosures required by IAS 34 are presented elsewhere in the interim financial report other than in the interim financial statements, those disclosures should be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time.

## Appendix B—Submission

**IFRS IC**  
**Wayne Upton**

**Cannon Street 30**  
**London EC4M 6XH**  
**United Kingdom**

**Agenda item request: Disclosure of information “*elsewhere in the interim financial report*”**

Dear Mr Upton,

The effective and consistent application of European Securities and Markets legislation is important for ESMA. In the area of financial reporting this is mainly achieved through ESMA’s European Enforcers Co-ordination Sessions (EECS), a forum in which all European national enforcers of International Financial Reporting Standards (IFRS) meet to exchange views and discuss experience with enforcement of IFRS.

As a result of the review of the financial statements carried out by national competent authorities and ESMA’s co-ordination activities there is an issue related to IAS 34 – *Interim Financial Reporting*, which we would like to bring to the attention of the IFRS Interpretations Committee.

A detailed description of the case is set out in the appendix to this letter.

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

Yours sincerely,



Steven Maijoor  
Chair ESMA



Julie Galbo  
Chair ESMA’s Corporate Reporting Standing Committee

## APPENDIX – DETAILED DESCRIPTION OF THE ISSUE

1. IAS 1 – *Presentation of Financial Statements* and IAS 34 – *Interim Financial Reporting* require disclosure of uncertainties related to going concern assumptions in interim financial statements. Detailed references are included in paragraphs 9 till 14. Nonetheless, paragraph 16A of IAS 34 explicitly refers to disclosure of information “*elsewhere in the interim financial report*”. Enforcers have come across divergent interpretation of the IFRS requirements with respect to disclosure of information required by IAS 34, as illustrated in the example below.

### Description of the issue

2. The half-year interim financial report of an issuer included amongst others an interim management report and the IFRS interim financial statements. The interim management report indicates that the significant decline in demand of services provided and products sold by the entity, mainly attributed to the financial crisis, had a negative impact on the entity’s turnover and results (continuing losses). The entity has made a significant number of employees redundant and has limited its production only to specific processes in order to reduce operating losses. To achieve the required liquidity in order to meet its finance obligations the entity planned to sell redundant equipment and property. Efforts were also directed to increase its commercial activity through – amongst others – participating in state supply offers. Even though the entity has restructured the major part of its loans and has met all of its obligations, if the entity does not manage to reverse the negative results in the following year, it is likely that the entity will face a significant going concern issue.
3. The auditor’s review report on the IFRS interim financial statements includes an emphasis of matter paragraph, with reference to the abovementioned paragraph from the interim management report, explaining the uncertainties relating to events and conditions that cast significant doubt upon the entity’s ability to continue as a going concern, although paragraph 7 of ISA 706 – *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report* states that “*When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall: ... (c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements...*”.
4. Based on the interim management report, the auditor’s review report and the interim financial statements there are events and conditions that cast significant doubt upon the entity’s ability to continue as a going concern. However, the entity has not included a disclosure note in the interim financial statements explaining the abovementioned uncertainties, as well as all available infor-

mation taken into account by management in order to conclude that the going concern assumption is appropriate.

## **Current practice**

### *View 1*

5. Based on the fact that the management report included in the half year financial report is not part of the financial statements, the proponents of view 1 argue that a disclosure note should be included in the interim financial statements for the period ended 30 June 2011 explaining the uncertainties relating to events and conditions that cast significant doubt upon the entity's ability to continue as a going concern and all available information taken into account by management in order to conclude that the going concern assumption is appropriate.

### *View 2*

6. Paragraph 16A of IAS 34 requires including the information in the notes to its interim financial statements if not disclosed "elsewhere in the interim financial report". Proponents of View 2 argue that the interim management report is part of the interim financial report. Consequently, in their view, providing the information in the interim management report meets the requirements of IAS 34.
7. Paragraph 8 of IAS 34 describes the minimum content of an interim financial report. Paragraphs 15, 15 A and 15 B do not clearly indicate if the required disclosures should be provided in the notes to the interim financial statements or elsewhere. In their view, as this is the minimum content of an interim financial report, it can also contain a management report. Accordingly, proponents of view 2 suggest that disclosures required by those paragraphs could be provided in the management report instead of interim financial statements.

## **Request**

8. The definition of the term "*interim financial report*" in paragraph 4 of IAS 34 is not sufficiently clear with respect to whether the "*interim financial report*" covers only the information reported under IFRS (meaning the IFRS interim financial statements) or more generally includes in addition to IFRS interim financial statements also management reports or other elements.
9. ESMA notes that paragraphs 10 and 14 of IAS 1 define the complete set of financial statements and state that reports and statements outside the financial statements are outside the scope of IFRSs.

ESMA believes that the guidance in IAS 34 for interim financial statements should be the same as in IAS 1, i.e. interim reports and statements presented outside interim financial statements should be outside the scope of IFRS.

10. Accordingly, ESMA suggests that the IFRS IC clarifies the meaning of '*interim financial report*' in IAS 34 e.g. through the annual improvements process to specify that the information required by IAS 34 needs to be provided within the interim financial statements themselves.



## Reference to the applicable IFRS requirements

11. Paragraph 25 of IAS 1 states that “*When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern. ...When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties...*”
12. Paragraph 26 of IAS 1 states that “*In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.*”
13. According to paragraph 16 of IAS 34 “*...the entity shall also disclose any events or transactions that are material to an understanding of the current interim period...*”.
14. In addition, according to paragraph 25 of IAS 34 “*...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.*”
15. Paragraph 16 A of IAS 34 requires disclosure of specific information, “*...in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report*”.
16. Paragraph 7 of the Conceptual Framework (1989) before it was replaced by Chapter 1 of Conceptual Framework (2010) stated that “*Financial statements do not include ... such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report.*” Currently finalized chapters of the Conceptual Framework (2010) does not explicitly refer to this matter, boundaries of financial reporting should be addressed in the Phase E of the project.