STAFF PAPER

October 2013

IASB Meeting

Project	**Annual Improvements to IFRSs—2012-2014 cycle**		
Paper topic	IFRS 7 *Financial Instruments: Disclosure*—Applicability of the Amendments to IFRS 7 to condensed interim financial statements		
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Introduction

1. In January 2013, the IFRS Interpretations Committee ('the Interpretations Committee') received a request for guidance on the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('Amendments to IFRS 7') to condensed interim financial statements. In particular, the submitter asked the Interpretations Committee to clarify the meaning of "interim periods within those annual periods" as used in paragraph 44R of IFRS 7. The submitter noted that there was uncertainty about whether the additional disclosure required by the Amendments to IFRS 7 should be included in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.

2. In its March 2013 meeting, the Interpretations Committee noted that the current wording of paragraph 44R has the potential to lead to divergent interpretations and requested the staff to consult the IASB in order to determine what the IASB's intention was.

3. In its April 2013 meeting, the IASB agreed that the additional disclosure required by the Amendments to IFRS 7 is not specifically required for all interim periods after the first year of application of the Amendments to IFRS 7. However, the additional disclosure is required to be given in condensed interim financial

statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34.

4. In its July 2013 meeting, the Interpretations Committee recommended that the IASB should propose an amendment to IFRS 7 to clarify that the additional disclosure is not required in condensed interim financial statements for all interim periods, unless its inclusion would be required in accordance with the requirements of IAS 34. This clarification should be provided through the Annual Improvements process.

Purpose of this paper

5. The objective of this paper is to:

   (a) provide a brief description of the issue;

   (b) explain the rationale for the Interpretations Committee's decision to recommend that the IASB should amend IFRS 7 through the Annual Improvements; and

   (c) ask for the IASB's agreement with the Interpretations Committee's recommendation.

The issue

6. The Amendments to IFRS 7 added to IFRS 7 paragraph 44R, 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.

7. The issue is whether the highlighted part of paragraph 44R requires that the additional disclosures required by Amendments to IFRS 7 (ie paragraphs 13A-13F and B40-B53) should be included in all condensed interim financial statements prepared in accordance with IFRS.

8. IAS 34 as a general observation is principle-based. No consequential amendments were made to IAS 34 as a result of these offsetting disclosures. This is in contrast to the actions of the FASB—they included specific interim disclosure requirements in US GAAP (which is more typical of the treatment of interim disclosures under US GAAP).

9. Three views exist in practice:

   (a) **View 1—the additional disclosures are not required in condensed interim financial statements.** IAS 34 defines the minimum content of condensed interim financial statements and no consequential amendment was made to that Standard upon the issue of Amendments to IFRS 7.

   (b) **View 2—the additional disclosures are required in all sets of condensed financial statements for a period beginning on or after 1 January 2013.** Paragraph 44R of IFRS 7 is clear that these disclosures will be required in interim financial reports (condensed or otherwise), because it specifically refers to "interim periods".

   (c) **View 3—the additional disclosures are required only in a condensed set of financial statements for an interim period during the year of first application of the Amendments to IFRS 7.** The reference to "interim periods" should be read as relating to interim periods within the first annual period following application, not to all annual periods thereafter.

Previous IASB tentative decision

10. In April 2013[1], we consulted the IASB on this issue and asked the IASB the following questions:

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[1] For further details see Agenda Paper 11A: http://www.ifrs.org/Meetings/Pages/IASBApril2013.aspx

(a) *Was the IASB's intention to require the offsetting disclosures in condensed interim financial statements?*

(b) *If yes, was the IASB's intention for periods after the first year of application of the Amendments to IFRS 7, to require these disclosures to be given in all interim periods, or only when they provide an explanation of the changes in financial position and performance of the entity since the end of the last annual reporting period?*

11. We did not ask the IASB whether the offsetting disclosures should be included in the condensed interim financial statements issued in the first year of application of the Amendments to IFRS 7 (ie in 2013), because the effective date of the Amendments to IFRS 7 is 1 January 2013. Consequently, in our view, it is too late to clarify (through an amendment) whether these disclosures should be included in the condensed interim financial statements issued in 2013.

12. In its April meeting the IASB tentatively decided that after the first year of application of the Amendment to IFRS 7, the offsetting disclosures should be given when required by IAS 34. We quote below an extract from the April 2013 *IASB Update*:

> The IASB agreed that the additional disclosure required by the Amendments to IFRS 7 is not specifically required for all interim periods after the first year of application of the Amendments to IFRS 7. However, the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34. IAS 34 requires disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The IASB noted that an interim financial report should include an explanation of events and transactions that are significant to understanding the changes in financial position and performance of the entity since the end of the last annual reporting period.

Interpretations Committee's recommendation

13. In its July 2013 meeting the Interpretations Committee noted that IAS 34 was not consequentially amended upon issue of the Amendments to IFRS 7 and that when the IASB wants to explicitly require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34.

14. Consequently, the Interpretations Committee recommended that the IASB should propose an amendment to IFRS 7 to clarify that the additional disclosure required by the Amendments to IFRS 7 is not required in condensed interim financial statements for all interim periods, either in the first year of application of the amendments or in any subsequent year, unless its inclusion would be required in accordance with the requirements of IAS 34.

15. In other words, the Interpretations Committee:

    (a) recommended clarifying this issue through Annual Improvements;

    (b) agreed with the IASB that after the first year of application of the Amendments to IFRS 7 the offsetting disclosures should be given when required by IAS 34 and

    (c) decided to clarify in the July 2013 *IFRIC Update* that also in the first year of application of the Amendments to IFRS 7 the offsetting disclosures should be given when required by IAS 34. In the Interpretations Committee's view:

        (i) it is too late to clarify this issue through an amendment to the Standard; but

        (ii) this clarification (in *IFRIC Update*) is necessary, because it thought that the uncertainty about the application of the Amendments in the first year should not be ignored.

16. The draft wording for the proposed amendments is in **Appendix A**.

Agenda criteria assessment

17. Our assessment of the Interpretations Committee's agenda criteria is as follows:

We should address issues(5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected; where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	Yes. The issue is widespread and has a significant effect on the entities affected. We are aware that different views exist in practice. The issue can be resolved within the confines of IFRS 7.
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	Yes, this issue is narrow in scope and can be resolved efficiently.
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	Yes, this issue will not be addressed in a forthcoming Standard.

Annual improvements criteria assessment

18. Our assessment of the issue against the annual improvements criteria is as follows:

In addition to the implementation and maintenance criteria, an AIP should (6.11, 6.12):	
Replace unclear wording or Provide missing guidance or Correct minor unintended consequences, oversights or conflict	Yes. In our view the wording of paragraph 44R of IFRS 7 is not sufficiently clear and has the potential to create divergence in practice. It may be clarified by deleting the reference to "interim periods within those annual periods".

In addition to the implementation and maintenance criteria, an AIP should (6.11, 6.12):	
Not change an existing principle or propose a new principle	Yes. We are not changing an existing principle or proposing a new principle. The offsetting disclosures, in condensed interim financial statements, are only required to the extent that it is necessary to comply with the principles of IAS 34 .
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	Yes. On this specific issue the IASB has already expressed its view. Consequently it should reach a consensus on a timely basis.

Question to the IASB

Question
Does the IASB agree with the Interpretations Committee's recommendation to propose an amendment through Annual Improvements for this issue?

Appendix A—Draft wording for the proposed amendments

A1 The proposed amendment to IFRS 7 is presented below.

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 44R is amended as follows: (new text is underlined and deleted text is struck through).

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.

44X *Annual Improvements 2012–2014* cycle, issued in [date], amended paragraph 44R. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

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

BC1 The IASB was asked to clarify the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('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. There was uncertainty about whether the disclosures required by 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 *Interim Financial Reporting*, which was not changed as a result of these amendments to IFRS 7.

BC2 The IASB noted that IAS 34 was not consequentially amended upon issue of the Amendments to IFRS 7 and that when the IASB wants to explicitly require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34. Consequently the IASB proposes to amend paragraph 44R of IFRS 7 in order to clarify that: the additional disclosure required by the Amendments to IFRS 7 is not specifically required for all interim periods.

However, in considering this amendment, the IASB noted that the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the requirements of IAS 34. IAS 34 requires disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The IASB noted 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. 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.