June 2014

STAFF PAPER

IASB 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

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

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.

Purpose of this paper

2. The objective of this paper is:

   (a) to present to the IASB the Interpretations Committee's recommendations on the proposed amendment to IFRS 7; and

   (b) to obtain a IASB decision on the finalisation of this amendment.

3. For a detailed description of the comments received and the source of those comments, the IASB should refer to Agenda Paper 17C[1] presented to the Interpretations Committee at the May 2014 meeting.

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 only when required by the principles in IAS 34.

6. The proposal clarifies that the offsetting disclosures are given in condensed interim financial statements that are prepared in accordance with IAS 34 when their inclusion is required by the principles of IAS 34.

[1] http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/May/AP17C%20-%20AIP%20CL%20-%20IFRS7%20-%20Offsetting%20disclosures.pdf

Main comments raised by respondents

7. Almost all the respondents agree with the proposal.

The Interpretations Committee's recommendations

8. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendment to paragraph 44R of IFRS 7 as exposed.

9. The Interpretations Committee also recommended to the IASB that it should delete the last sentence of paragraph BC7 of the ED, because it is not necessary and it could be read as implying a level of disclosure almost as extensive as that required in annual IFRS financial statements. The sentence recommended to be deleted is the following: *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*. This sentence, in the Interpretations Committee's view, differs from paragraph 6 of IAS 34, which states …*The interim financial report is intended to provide an update on the latest complete set of annual financial statements*..., and paragraph 15C of IAS 34, which states that an entity should provide an explanation of and update to the relevant information included in the financial statements of the last annual reporting period *when an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period*.

Annual Improvements criteria reassessment

10. We think that the proposed amendment to IFRS 7 continue to meet the Annual Improvements criteria established by the *Due Process Handbook* issued in February 2013, because it clarifies a perceived discrepancy within paragraph 44R of IFRS 7. These criteria are reported in Appendix A of this paper.

Questions for the IASB

1. Does the IASB agree with the Interpretations Committee's recommendation to finalise, in the Annual Improvements project, the amendment to paragraph 44R of IFRS 7 as exposed?

2. Does the IASB agree with the Interpretations Committee's recommendation to delete the last sentence of paragraph BC7 of the ED?

Appendix A—Interpretations Committee criteria for annual improvements

A1. Our reassessment of the issue against the annual improvements 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.
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 given when required by the existing principles of IAS 34.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	Yes. In our view, the IASB should reach a consensus on a timely basis, because almost all the respondents agree with the proposal.