

INTERIM FINANCIAL STATEMENTS IN THE YEAR OF ADOPTION OF IFRSs

Accounting Standards Board Staff Financial Reporting Commentary¹

December 8, 2009

The first time that most publicly accountable enterprises will provide external financial information using International Financial Reporting Standards (IFRSs) will be in their interim financial reports for the year of adoption of IFRSs. This commentary reviews a few of the questions that might arise regarding presentation of interim financial statements in those reports.

BASIS OF PRESENTATION

There has been considerable discussion regarding how to describe the basis of presentation of interim financial statements when a complete set of financial statements is not presented. When Europe first adopted IFRSs, practice varied as to whether the first interim financial statements were disclosed as being in accordance with IFRSs or in accordance with IAS 34 *Interim Financial Reporting*. Paragraph 19 of IAS 34 states:

If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with IFRSs unless it complies with all the requirements of IFRSs.

This statement indicates that, unless an entity presents a complete set of IFRS financial statements in its interim report (i.e., including all disclosure and other requirements of IFRSs), both the financial statements and any report thereon by the entity's auditor should state compliance with IAS 34, not compliance with IFRSs.

Nothing in IAS 34 prohibits or discourages an entity from publishing a complete set of financial statements (as described in IAS 1 *Financial Statement Presentation*) in its interim financial report, rather than condensed financial statements and selected explanatory notes. In these circumstances, an entity states compliance with IFRSs.

¹ This commentary provides the views of the staff of the Accounting Standards Board (AcSB). The commentary has not been approved by the AcSB and, therefore, does not constitute a primary source of GAAP.

ACCOUNTING POLICIES

Accounting policies are likely to be one of the most significant areas of change when compared to the most recent annual financial statements. Paragraph 16(a) of IAS 34 states that the interim financial statements should disclose:

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.

It is likely that most entities will conclude that a complete list of significant accounting policies should be disclosed in the first interim financial statements in order to meet the requirements of paragraph 16 of IAS 34. This will ensure that users of the financial statements clearly understand the policies being applied in the context of the other policies and financial statements as a whole. If a complete list of accounting policies is not provided, a clear statement would be required that, with the exception of those listed, the accounting policies have not changed as a result of adopting IFRSs.

Changes in accounting policies include those that do not have an immediate measurement effect on the financial statements. For example, on adopting IFRSs, an entity might be required to change its accounting policy for evaluating and measuring impairment. Even though that change might not have an effect at the date of transition, the new policy would be disclosed for the benefit of financial statement users evaluating potential future effects on financial results.

Even when accounting policies have not changed, additional disclosures might be required by IFRSs that were not previously required in accordance with Canadian GAAP.

ACCOUNTING POLICY CHANGES

Some have asked whether a first-time adopter may change accounting policies in the year of adoption of IFRSs, after its first interim financial report is issued. The IASB proposed to clarify this issue in its August 2009 Exposure Draft on *Improvements to IFRSs*. If this proposal is adopted, it would clarify that a first-time adopter may change its accounting policies, and elective exemptions made in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, in the year of adoption of IFRSs. When a first-time adopter makes such changes after it has published an interim financial report in accordance with IAS 34, the first-time adopter would be required to explain those changes and update

the reconciliations required by IFRS 1. The IASB also proposes to clarify that IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* does not apply to changes in accounting policies that an entity makes when it changes accounting policies before presenting its first IFRS financial statements (i.e., the first financial statements in which the entity adopts IFRSs by an explicit and unreserved statement of compliance with IFRSs). The effect of this clarification is that an entity may change its accounting policies during the year of adoption of IFRSs without needing to demonstrate that the new policy results in information that is reliable and more relevant than that previously used. However, any such change in accounting policy means the company has to explain the change and update all of the reconciliations. An entity should also consider the effect that extensive or frequent changes would have on financial statement user requirements, including the requirements of regulatory bodies.

DISCLOSURES

Some people are concerned about the extent of disclosure that is needed in interim financial reports.

Reconciliations

It is clear from paragraph 32 of IFRS 1 that a number of reconciliations are required, as follows:

- (a) Each ... interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date).
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

The reconciliations described in paragraph 32(a) are required in each interim financial report (i.e., each quarter presented). The reconciliations referred to in paragraph 32(b) are required only in the first interim financial report and include the following:

- (a) reconciliations of equity reported in accordance with previous Canadian GAAP to equity in accordance with IFRSs for both of the following dates:

- (i) the date of transition to IFRSs – for a calendar year company, January 1, 2010; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous Canadian GAAP – for a calendar year company, December 31, 2010;
and
- (b) a reconciliation to total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements – for a calendar year company, December 31, 2010.

These reconciliations are required to provide users of financial statements with a link between the previous Canadian GAAP amounts and those prepared in accordance with IFRSs.

Minimum disclosure

Paragraph 33 of IFRS 1 also states:

IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

This is not necessarily a requirement for full IFRS note disclosure. Like Canadian interim financial reporting requirements, IAS 34 requires only the disclosures necessary to update the most recent annual financial statements. Thus, an entity needs to disclose information about events or transactions that are material to understanding the current interim period, including information required by IFRSs that was not previously provided in its most recent annual financial statements – its previous Canadian GAAP financial statements. Paragraphs 16 and 17 of IAS 34 provide examples of information and events and transactions that should be considered.

Situations suggesting the need for additional disclosures might include:

- (a) items for which a significant or material transition entry has been made; and
- (b) when IFRSs require new or enhanced disclosures (for example, related party disclosures, provisions).

An entity need not repeat information previously provided in Canadian GAAP financial statements for which there is no significant new information content. This advice applies to all quarters in the year of adoption of IFRSs. As the AcSB noted in its July 2007 Background Information and Basis for Conclusions document on *Financial Instruments Disclosures and Capital Disclosures*, entities may find it more convenient to apply new disclosure requirements initially in their final Canadian GAAP financial statements than to wait until the end of the following interim period. By enhancing disclosures in the Canadian GAAP financial statements to the extent permitted, the entity might avoid the need to repeat information in interim financial statements in the year of adoption of IFRSs.

REQUIREMENTS FOR REPORTING ISSUERS

In addition to the requirements of IAS 34, the Canadian Securities Administrators may issue requirements regarding interim financial reporting. For example, subsection 4.3 (2)(e) of the proposed changes to National Instrument 51-102 *Continuous Disclosure Obligations* proposes to require a reporting issuer to include the opening IFRS statement of financial position at the date of transition to IFRSs in its first interim financial report required to be filed with securities regulators in the year of adoption. For a December 31, 2011 year-end reporting issuer, this proposal would require a January 1, 2010 transition date statement of financial position to be included in the March 31, 2011 interim financial report that is filed with securities regulators.