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International
Accounting Standards
Board

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: May 2006, London

Project: Interim Financial Reporting and Impairment – Staff recommendation (Agenda Paper 8 (ii))

INTRODUCTION

1. Draft Interpretation D18 Interim Financial Reporting and Impairment was published for comment on 12 January 2006 with comments requested by 31 March 2006. Fifty four comment letters have been received and recurring comments and comments on major matters have been analysed in Agenda paper 8(i). Draft Interpretation D18 and the associated comment letters are available at <http://www.iasb.org/>.
2. This paper sets out the staff's proposed response to the comment letters received in respect of D18.
3. A revised draft of the Interpretation incorporating the proposals in this paper has been prepared and is attached as appendix 1 to this document¹. Given the large number of responses received arguing that the Board should resolve this issue, the staff propose that the revised draft D18 be presented to the Board at its June meeting as a final IFRIC position, and that the Board be given the opportunity at that point to confirm that it does not wish to address the issues in IAS 34 itself.

¹ Appendix 1 has not been reproduced as part of the Observer Notes

AGREEMENT WITH THE PROPOSED CONSENSUS

4. Of the fifty-four respondents, twenty-six agreed with the consensus that impairments recognised in interim periods should not be reversed in later periods. Twenty-one believed that preparers should be allowed to reverse impairments booked in interim periods. A further five agreed with the principle in the consensus but would only support the issuance of the Interpretation if other changes were made to clarify the requirements of IAS 36 or IAS 39.
5. The staff believe that this divergence of opinion between the respondents further demonstrates the need for clear guidance in this area. The staff therefore consider that despite the fact that twenty one of the respondents disagree with the consensus reached, the IFRIC should not change its consensus view.
6. The staff propose that a paragraph be inserted into the Basis for Conclusions acknowledging that respondents were divided on the consensus and confirming that the IFRIC considered their views (see paragraph BC6 in the revised draft²).
7. *The staff ask the IFRIC to confirm whether they agree with this approach.*

LACK OF A CLEAR PRINCIPLE

8. Twelve respondents believed that either the consensus lacked a clear principle or that it failed to discuss the principles that underlay the Interpretation.
9. The staff considered two ways that this issue could be addressed in the Basis of Conclusions.

View 1 – do not amend the Basis of Conclusions

10. BC8 states that the IFRIC “has not identified any general principles that might apply to both the proposed Interpretation and to other areas of potential conflict.”
11. This paragraph makes it clear that the IFRIC has not been able to identify general principles that can be applied to this situation and has therefore issued a narrow, rules based Interpretation which will reduce divergence and improve

² Paragraph BC6 of the revised draft 1 has not been reproduced as part of the Observer Notes

the quality of reporting. There is therefore no need to expand upon this paragraph.

View 2 – amend the Basis of Conclusions to include a commentary on the key underlying principles

12. Some respondents suggested that the Basis for Conclusions be amended to include commentary on the key underlying principles that supported the Interpretation. These might include :

- That impairment reviews should be carried out at each interim reporting date (some respondents did not believe that the existing guidance was clear in this respect)
- That the discrete approach in IAS 34 took precedence over the integral approach
- The extent to which the IFRIC are assuming that a continuous monitoring of impairment is carried out.

13. Whilst this approach would address some of the concerns expressed by respondents, it may be regarded as extending the narrow consensus reached and be establishing additional principles beyond those which the IFRIC agreed.

14. The staff considered the available options and propose that no change be made to the draft Interpretation in respect of these comments on the basis that the IFRIC had made it clear that they could not identify general principles, and that including other principles in the Basis for Conclusions may affect other conflicts with IAS 34 which the IFRIC have not considered.

15. The staff ask the IFRIC whether they support this conclusion

AMMENDMENT TO THE TRANSITIONAL REQUIREMENTS

16. Many respondents commented that the effective date and transition requirements proposed in draft D18 could be read as requiring the Interpretation to apply from an earlier date than IAS 36. These respondents believed that the transition requirements were overly onerous, although opinion was divided as to whether they should be clarified to bring them into line with the transitional requirements of IAS 36 or be amended to restrict them to the restatement of comparative periods.

17. The Draft D18 states that :

“An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date to be set at three months after the Interpretation is finalised]. Earlier application is encouraged. If an entity applies the [draft] Interpretation for a period beginning before [date to be set at three months after the Interpretation is finalised], it shall disclose that fact. The [draft] Interpretation shall be applied retrospectively.”

18. IAS 36 states :

“If an entity elects in accordance with paragraph 85 of IFRS Business Combinations to apply IFRS 3 from any date before the effective dates set out in paragraphs 78-84 of IFRS 3, it shall apply this standard prospectively from that same date.

Otherwise an entity shall apply this standard:

- a) to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004; and
- b) to all other assets prospectively from the beginning of the first annual period beginning on or after 31 March 2004.”

19. The staff believe that the Interpretation could not apply from a date which is earlier than the date that IAS 36 and IAS 39 were adopted. The staff do however accept that the draft Interpretation could be clarified in this respect. The staff therefore propose that the transitional requirements be re-drafted to clarify the fact that the consensus should be applied retrospectively or, from the date that the entity first applied IAS36 or 39 (as applicable) if later (see paragraph 9³ of the revised draft Interpretation).

20. The staff ask the IFRIC whether they support this clarification of the transitional arrangements

INCLUSION OF BC8 IN THE STANDARD

21. One respondent noted that “in New Zealand (and other jurisdictions that have adopted International Financial Reporting Standards (IFRS)), the Basis of Conclusions accompanying each IFRS pronouncement is not published due to copyright restrictions.” They proposed that paragraph BC8, which limited the

³ Paragraph 9 of the revised draft Interpretation is not reproduced as part of the Observer Notes

scope of application of the Interpretation, be placed within the body of the standard rather than in the Basis of Conclusions.

22. Paragraph 2 of the draft Interpretation states that :

“The [draft] Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.”

23. The staff considered whether a paragraph similar to BC8 should be included within the scope of the standard.

24. The staff believe that paragraph 2 which states that the Interpretation applies to the interaction between IAS34 and IAS 36 and 39, and the effect of that interaction on interim and annual financial statements is clear in this respect and that BC8 merely reinforces this statement.

25. The staff therefore recommend that no change is made in respect of this comment.

26. *The staff ask the IFRIC whether they support this conclusion*

AMMENDMENT OF BC5

27. A number of the respondents believed that the requirements of IAS 34 were more specific to interim reporting than IAS 36 and IAS 39. These respondents disagreed with the Basis of Conclusions paragraph BC5 which states that the prohibitions on the reversals of impairments in IAS36 and 39 “should take precedence over the more general statement in IAS 34.”

28. The staff considered that identifying which of the standards is more specific is a matter of judgement and one which is central to the consensus reached. They do not therefore propose that any change be made to the draft Interpretation in respect of this comment.

29. *The staff ask the IFRIC whether they support this conclusion*

AMMENDMENT OF BC6

30. A number of respondents commented that the argument set out in BC6, that “IAS 34 was issued before the reversal of impairment losses...was prohibited

and hence did not consider these later specific requirements” was weak and could potentially set a precedent for other standards.

31. Many of these respondents commented that if IAS 36 and IAS 39 intended that impairments booked in interim periods were not reversed, then they could have amended IAS 34 when they were issued.
32. The staff considered that this paragraph adds further justification to the consensus reached but that it could set a precedent for other situations. To avoid creating precedents which may cause problems in other situations, the staff propose that this paragraph be removed from the Basis of Conclusions.
33. **The staff ask the IFRIC whether they are supportive of this amendment.**

APPLICATION TO OTHER FINANCIAL STATEMENTS

34. One respondent commented that whilst the standard applies to interim accounts prepared in accordance with IAS 34, it is not clear whether it would apply to other sets of interim financial statements prepared. For example, in some countries, interim financial statements are prepared largely in compliance with IFRSs but not the requirements of IAS 34. The respondent proposes that the final Interpretation be made clear that it applies to any published interim report prepared using IFRSs.
35. Similarly, some entities will prepare financial statements (for example prospectuses or quarterly financial statements prepared for debt covenant purposes). The respondent proposes that the draft Interpretation be amended to be clear that it applies to all published interim financial information prepared using IFRSs.
36. The rule that impairments of goodwill and certain financial assets should not be reversed is based upon the principles established in IAS 36 and IAS 39. The staff consider that these principles are equally applicable to any published financial information prepared using the measurement and impairment criteria in those standards.
37. The staff therefore propose that the draft Interpretation be amended to make clear that where an impairment of goodwill, a financial asset carried at cost, or an equity financial instrument is recognised in any published financial

information, it should not be subsequently reversed (see paragraph 3⁴ of revised draft Interpretation).

38. *The staff ask the IFRIC whether they are supportive of this amendment.*

WORDING OF CONSENSUS

39. Some respondents noted that the consensus referred to “an investment in an equity instrument or a financial asset carried at cost”. One respondent proposed that the consensus should be amended to more closely match the wordings used by IAS39, for example :

“An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or in respect of a financial asset carried at cost. An entity shall not reverse through profit or loss an impairment loss recognised in profit or loss in a previous interim period in respect of an equity instrument classified as available for sale.”

40. Whilst the staff agrees with the respondent that revising the wording to closely match the wording in IAS 39 is desirable, it believes that the consensus as it stands is sufficiently clear to avoid misunderstandings in this area. The staff does not therefore propose that the draft Interpretation be amended in respect of this comment.

41. *The staff ask the IFRIC whether they support this conclusion.*

PRESENTATION OF A REVISED DRAFT TO THE BOARD

42. Assuming that comments made by the IFRIC in respect of the above changes are incorporated into the draft Interpretation, the staff propose that the revised Interpretation be presented to the Board at its June meeting as the IFRIC’s agreed position.

43. *The staff ask the IFRIC to confirm that they agree with this approach and to confirm that the revised draft Interpretation represents the IFRIC’s agreed position.*

⁴ Paragraph 3 of the revised draft Interpretation is not reproduced in the Observer Notes