Compiled Interpretation **Interpretation 10**

Interim Financial Reporting and Impairment

This compiled AASB Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. Early application is permitted. It incorporates relevant amendments made up to and including 5 October 2009.

Prepared on 5 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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AASB Interpretation 10 *Interim Financial Reporting and Impairment* (as amended) is set out in paragraphs 1 – 10. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

AASB Interpretation 10 *Interim Financial Reporting and Impairment* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It takes into account amendments up to and including 5 October 2009 and was prepared on 5 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 10 (September 2006) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 10	Sep 2006	*(beginning)* 1 Nov 2006	see (a) below
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-10	Dec 2007	*(beginning)* 1 Jan 2009	see (b) below
Erratum	Oct 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (c) below

(a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 but before 1 November 2006.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(c) Entities may elect to apply this Erratum to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009 and to periods beginning on or after 1 January 2009 that end before 30 June 2009, provided that AASB 2009-6 *Amendments to Australian Accounting Standards* is also applied to such periods.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
1	amended amended	AASB 2007-8 [6, 154] Erratum, Oct 2009 [11]
2	amended	AASB 2007-10 [102]

Paragraph affected	How affected	By … [paragraph]
3	amended	AASB 2007-10 [103]
7	amended amended	AASB 2007-8 [6] Erratum, Oct 2009 [11]
Aus9.1	amended	AASB 2007-8 [7, 8]
Aus9.4	amended	AASB 2007-8 [8]

COMPARISON WITH IFRIC 10

AASB Interpretation 10 *Interim Financial Reporting and Impairment* as amended incorporates International Financial Reporting Interpretations Committee Interpretation IFRIC 10 *Interim Financial Reporting and Impairment*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of IFRIC 10) are identified with the prefix "Aus", followed by the number of the preceding IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 10 as amended will simultaneously be in compliance with IFRIC 10 as amended.

INTERPRETATION 10

AASB Interpretation 10 was issued in September 2006.

This compiled version of Interpretation 10 applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 5 October 2009 (see Compilation Details).

AUSTRALIAN ACCOUNTING STANDARDS BOARD

INTERPRETATION 10

INTERIM FINANCIAL REPORTING AND IMPAIRMENT

References

Accounting Standard AASB 134 *Interim Financial Reporting*

Accounting Standard AASB 136 *Impairment of Assets*

Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*

Background

1 An entity is required to assess goodwill for impairment at the end of each reporting period, to assess investments in equity instruments and in financial assets carried at cost for impairment at the end of each reporting period and, if required, to recognise an impairment loss at that date in accordance with Accounting Standards AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments: Recognition and Measurement*. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This Interpretation provides guidance on whether such impairment losses should ever be reversed.

2 The Interpretation addresses the interaction between the requirements of AASB 134 *Interim Financial Reporting* and the recognition of impairment losses on goodwill in AASB 136 and certain financial assets in AASB 139, and the effect of that interaction on subsequent interim and annual financial statements.

Issue

3 AASB 134 paragraph 28 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on an annual reporting period-to-date basis.'

4 AASB 136 paragraph 124 states that 'An impairment loss recognised for goodwill shall not be reversed in a subsequent period.'

5 AASB 139 paragraph 69 states that 'Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.'

6 AASB 139 paragraph 66 requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

Consensus

8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

9 An entity shall not extend this consensus by analogy to other areas of potential conflict between AASB 134 and other Australian Accounting Standards.

Application

Aus9.1 This Interpretation applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus9.2 This Interpretation applies to annual reporting periods beginning on or after 1 November 2006.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

Aus9.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 November 2006, permitting early application in the context of adopting all Australian equivalents to International Financial Reporting Standards for such periods. Early application is encouraged. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Interpretation to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act in relation to AASB 1048 *Interpretation and Application of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus9.4 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Transition

10 An entity shall apply the Interpretation to goodwill prospectively from the date at which it first applied AASB 136; it shall apply the Interpretation to investments in equity instruments or in financial assets carried at cost prospectively from the date at which it first applied the measurement criteria of AASB 139.

BASIS FOR CONCLUSIONS ON IFRIC 10

This IFRIC Basis for Conclusions accompanies, but is not part of, AASB Interpretation 10. The AASB considers that this Basis for Conclusions is an essential feature of the Interpretation. An IFRIC Basis for Conclusions may be amended to reflect the requirements of the AASB Interpretation and AASB Accounting Standards where they differ from the corresponding International pronouncements.

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 IAS 34 requires an entity to apply the same accounting policies in its interim financial statements as it applies in its annual financial statements. For annual financial statements, IAS 36 prohibits an entity from reversing an impairment loss on goodwill that it recognised in a prior annual period. Similarly, IAS 39 prohibits an entity from reversing in a subsequent annual period an impairment loss on an investment in an equity instrument or in a financial asset carried at cost. These requirements might suggest that an entity should not reverse in a subsequent interim period an impairment loss on goodwill or an investment in an equity instrument or in a financial asset carried at cost that it had recognised in a prior interim period. Such impairment losses would not be reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

BC3 However, IAS 34 requires year-to-date measures in interim financial statements. This requirement might suggest that an entity should reverse in a subsequent interim period an impairment loss it recognised in a prior interim period. Such impairment losses would be reversed if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

BC4 The IFRIC released Draft Interpretation D18 *Interim Financial Reporting and Impairment* for public comment in January 2006. It received more than 50 letters in response.

BC5 The IFRIC noted that many of the respondents believed that in attempting to address contradictions between standards, D18 was beyond the scope of the IFRIC. Some believed that the issue addressed could be better resolved by amending IAS 34. Before finalising its views, the IFRIC asked the International Accounting Standards Board to consider this point. The Board, however, did not

wish to amend IAS 34 and asked the IFRIC to continue with its Interpretation.

BC6 Respondents to D18 were divided on whether the proposed Interpretation should prohibit the reversal of impairment losses on goodwill or investments in equity instruments or in financial assets carried at cost that had been recognised in interim periods. The IFRIC considered these responses but maintained its view that such losses should not be reversed in subsequent financial statements. The IFRIC observed that the wide divergence of views evident from respondents' letters underlined the need for additional guidance and it therefore decided to issue the Interpretation with few changes from D18.

BC7 The IFRIC considered the example of Entity A and Entity B, which each hold the same equity investment with the same acquisition cost. Entity A prepares quarterly interim financial statements and Entity B prepares half-yearly financial statements. The entities have the same year-end. The IFRIC noted that if there was a significant decline in the fair value of the equity instrument below its cost in the first quarter, Entity A would recognise an impairment loss in its first quarter interim financial statements. However, if the fair value of the equity instrument subsequently recovered, so that by the half-year date there had not been a significant decline in fair value below cost, Entity B would not recognise an impairment loss in its half-yearly financial statements if it tested for impairment only at its half-yearly reporting dates. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the measurement of its annual results when compared with Entity B's approach. The IFRIC also noted that the recognition of an impairment loss could similarly be affected by the timing of the financial year-ends of the two entities.

BC8 The IFRIC noted paragraph B36 of Appendix B accompanying IAS 34, which provides examples of applying the general recognition and measurement principles of that standard and states that IAS 34 requires an entity to apply the same impairment testing, recognition, and reversal criteria at an interim date as it would at the end of its financial year.

BC9 The IFRIC concluded that the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and in financial assets carried at cost in IAS 39 should take precedence over the more general statement in IAS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.

BC10 Furthermore, the IFRIC concluded that the rationale for the non-reversal of impairment losses relating to goodwill and investments in equity instruments, as set out in paragraph BC189 of IAS 36 and paragraph BC130 of IAS 39, applies at both interim and annual reporting dates.

BC11 The IFRIC considered a concern that this conclusion could be extended to other areas of potential conflict between IAS 34 and other standards. The IFRIC has not studied those areas and therefore has not identified any general principles that might apply both to the Interpretation and to other areas of potential conflict. The IFRIC therefore added a prohibition against extending the consensus by analogy to other areas of potential conflict between IAS 34 and other standards.

BC12 D18 proposed fully retrospective application. A number of comment letters stated that this could be read as being more onerous than the first-time adoption requirements of IAS 36. The IFRIC revised the wording of the transition requirements to make clear that the Interpretation should not be applied to periods before an entity's adoption of IAS 36 in the case of goodwill impairments and IAS 39 in the case of impairments of investments in equity instruments or in financial assets carried at cost.