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International Financial Reporting Interpretations Committee

IFRIC DRAFT INTERPRETATION D18

Interim Financial Reporting and Impairment

Comments to be received by 31 March 2006

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D18 Comment Letters
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

Fax: +44 (0)20 7246 6411

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Invitation to comment

The International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC) invites comments on any aspect of this draft Interpretation *Interim Financial Reporting and Impairment*. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

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Interim Financial Reporting and Impairment

IFRIC [draft] Interpretation X *Interim Financial Reporting and Impairment* ([draft] IFRIC X) is set out in paragraphs 1–9. [Draft] IFRIC X is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8–10 of the IFRIC *Preface*.

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References

- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*

Background

1 An entity is required to assess goodwill for impairment at every reporting date, to assess investments in equity instruments and financial assets carried at cost for impairment at every balance sheet date and, if required, to record an impairment loss at that date in accordance with IAS 36 and IAS 39. However, at a subsequent reporting or balance sheet date, conditions may have so changed that the impairment loss would have been reduced or would have been avoided had the impairment assessment been made only at that date. The [draft] Interpretation provides guidance on whether certain impairment losses should ever be reversed.

Scope

2 This [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.

Issue

3 IAS 34 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 a year-to-date basis.'

4 IAS 36 paragraph 124 states that 'An impairment loss recognised for goodwill shall not be reversed in a subsequent period.'

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5 IAS 39 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 IAS 39 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 This [draft] Interpretation addresses the following issue:

> Does IAS 34 require impairment losses recognised in an interim period on goodwill and investments in equity instruments and financial assets carried at cost to be reversed or not reversed if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date?

Consensus

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

Effective date and transition

9 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.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft Interpretation.

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 The IFRIC noted that the requirement in IAS 34 that an entity should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements supported the argument that an impairment loss recognised in one interim period on goodwill or an investment in an equity instrument or a financial asset carried at cost should not be reversed in a subsequent interim period, even if a loss would not have been recognised, or a smaller loss would have been recognised, at the subsequent balance sheet date if the item was first assessed for impairment at that date. The IFRIC noted that an entity may not, in its annual financial statements, reverse impairment losses recognised in an earlier annual period on goodwill or on investments in equity instruments or financial assets carried at cost.

BC3 On the other hand, the requirement in IAS 34 for measurement to be made on a year-to-date basis supported the argument that an impairment loss recognised in one interim period on goodwill or an investment in an equity instrument or a financial asset carried at cost should be reversed in a subsequent interim period if a loss would not have been recognised, or a smaller loss would have been recognised, at the subsequent balance sheet date had the item been first assessed for impairment at that date.

BC4 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 whilst Entity B prepares half-yearly financial statements. The entities have the same financial year-end date. 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 external balance sheet date. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the

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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.

BC5 The IFRIC concluded that the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and 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.

BC6 The IFRIC members noted that IAS 34 was issued before the reversal of impairment losses on goodwill, investments in equity instruments and financial assets carried at cost was prohibited, and hence did not consider these later specific requirements with regard to goodwill and investments in equity instruments and financial assets carried at cost.

BC7 Furthermore, the IFRIC noted that this conclusion was consistent with the rationale set out in paragraph BC189 of the Basis for Conclusions on IAS 36 and paragraph BC130 of the Basis for Conclusions on IAS 39 for the decision of the International Accounting Standards Board that impairment losses should not be subsequently reversed for goodwill and investments in equity instruments.

BC8 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 proposed Interpretation and to other areas of potential conflict. The IFRIC therefore emphasises that the proposed Interpretation applies only to reversals of impairment losses of goodwill and investments in equity instruments and financial assets carried at cost.

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