



Australian Government

**Australian Accounting
Standards Board**

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Mr Robert Garnett
Chairman – IFRIC
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Bob,

IFRIC Draft Interpretation D18
Interim Financial Reporting and Impairment

The Urgent Issues Group (UIG) has considered the proposals in Draft Interpretation D18, prepared by the International Financial Reporting Interpretations Committee (IFRIC). The UIG is pleased to provide its principal views in respect of the proposals for consideration by the IFRIC.

The UIG considers that it would be best to resolve the conflict between IAS 34 *Interim Financial Reporting* and the other Standards through amendment of IAS 34, since the issue arises because of the principles underlying the interim reporting requirements.

Majority and Minority Views

After discussing the Draft Interpretation at several meetings, a majority of the UIG members concluded that they did not support the approach to the issue proposed in the Draft Interpretation. They believe that the principles in IAS 34 should take precedence in resolving this issue. However, a minority of UIG members do support the approach proposed in D18, arguing that an impairment recognised in an interim period should continue to be recognised in the annual financial report as it would then reflect some economic events that had occurred during the year.

UIG members agreed that this submission should refer to both the majority view and the minority view. The view of the majority of UIG members is explained in the next section. The minority view supports the conclusions in the Draft Interpretation.

Conflict between Standards – Majority View

The majority of UIG members do not support the approach proposed in the Draft Interpretation to resolving the conflict between IAS 34 and other Standards. The proposed application of the impairment non-reversal requirements in IAS 36 *Impairment of Assets* and IAS 39 *Financial Instruments: Recognition and Measurement* to interim financial

reports clearly results in a breach of one of the general principles of interim reporting: the frequency of reporting should not affect the measurement of an entity's annual results (see IAS 34.28). This breach is acknowledged by the IFRIC in paragraph BC4 of the Basis for Conclusions accompanying the Draft Interpretation. (The statement in paragraph BC4 that different financial year-ends for entities can also affect the recognition of impairment losses is true, but not relevant to determining the issue at hand.)

The example presented by the IFRIC in paragraph BC4 concerns a comparison between two entities, one reporting quarterly and the other half-yearly. However, the same example can be applied to the reporting by a single entity, with the result that the approach proposed by the IFRIC can mean that an entity potentially can modify its annual result by changing the frequency of its voluntary interim reporting. This is not an acceptable outcome.

The UIG majority does not accept the basis upon which the IFRIC appears to have decided the issue: paragraphs BC5 and BC6 appear to argue that the later and more specific requirements on the non-reversal of certain types of impairment take precedence over the earlier and more general interim reporting principles. As indicated in paragraph BC6, the interim reporting requirements did not address non-reversible impairments, but equally the IASB is not likely to have considered the present interim reporting issue when determining the impairment non-reversal requirements in IAS 36 and IAS 39.

IAS 34 is based on the general principle that the frequency of reporting should not affect the annual results by requiring measurements for interim reporting purposes to be made on a year-to-date basis (paragraph 28). Paragraph 29 goes on to state that this may involve changes in estimates of amounts reported in prior interim reporting periods of the current financial year. The Standard illustrates this for various types of items, such as income taxes and inventory impairments.

The UIG majority supports the general principle, so that the impairments reported in an interim financial report are in effect estimates relating to the impairments to be recognised in the annual report. However, as the annual impairments cannot be reliably estimated at an interim date, the only alternative consistent with the general principle is to recognise the impairments that arise in the interim period, and then remeasure the impairments for the annual reporting period. This does not represent the reversal of an impairment in a subsequent period, which would be prohibited by IAS 36 or IAS 39. The annual period for which impairment is remeasured includes the interim period for which an impairment was recognised.

An alternative justification for this approach is that the remeasurement of impairments for the annual period does not represent the reversal of an impairment recognised in an interim period. The annual impairment assessment is not trying to identify whether a specific interim period impairment has been reversed – the annual impairment is for a different period. Therefore, the difficulties with specific reversals, which are clearly pointed out in the Bases for Conclusions paragraphs cited in paragraph BC7, are not relevant.

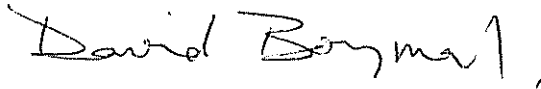
Transition Requirements

The proposed retrospective application of the Interpretation may be in conflict with the transitional provisions in IAS 36 concerning goodwill, as that Standard is only required to be applied prospectively from 31 March 2004 (i.e. goodwill acquired in business

combinations for which the agreement date is on or after 31 March 2004). An entity can elect to apply the Standard earlier, but again prospectively.

Please contact us if further information or clarification is required.

Yours sincerely,

A handwritten signature in black ink that reads "David Boymal". The signature is written in a cursive style with a large, sweeping initial 'D' and a trailing flourish.

David Boymal
Chairman, AASB and UIG