



**BAKER TILLY**

Our ref: NATS/DW  
Your ref: FRED 56

25 Farringdon Street  
London  
EC4A 4AB  
United Kingdom

**T:** +44 (0)20 3201 8000  
**F:** +44 (0)20 3201 8001

[www.bakertilly.co.uk](http://www.bakertilly.co.uk)

Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

[donna.wilcox@bakertilly.co.uk](mailto:donna.wilcox@bakertilly.co.uk)

For the attention of Susanne Pust Shah

09 January 2015

Dear Sir or Madam

**FRED 56 “Draft FRS 104 Interim Financial Reporting”**

We welcome the opportunity to comment on the FRC’s Exposure Draft FRED 56 “Draft FRS 104 Interim Financial Reporting” (“the Exposure Draft” / “Draft FRS 104”).

We are generally supportive of the proposals but ask the FRC to consider whether revisions to the guidance in the Statement ‘Half-yearly financial reports’ and the guidance within Appendix A, Appendix B and Appendix C of IAS 34 may still be useful to preparers of interim financial reports.

We also ask the FRC to consider providing alternate “best practice guidance” on preliminary announcements, in due course.

We recognise that whilst aligning the effective date of Draft FRS 104 with the effective date for FRS 102 is desirable, it could create issues for first-time adopters, depending on when Draft FRS 104 is issued. It may be difficult for entities to prepare quarterly, or even half-yearly, financial reports for 2015 in accordance with Draft FRS 104 and within two months of the end of the period, as required by DTR 4. However, we do not consider that transition exemptions would be appropriate as the principles of Draft FRS 104 are closely aligned with IAS 34 and the Statement ‘Half-yearly financial reports’.

Our responses to the specific questions raised in the Exposure Draft are set out in Appendix 1.

If you would like to discuss any aspect of this response please do not hesitate to contact me.

Yours faithfully

Donna Wilcox  
Technical Senior Manager  
Baker Tilly UK Audit LLP



Appendix 1

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**Question 1**

***Do you agree with the proposal to withdraw the Statement Preliminary announcements issued by the Accounting Standards Board (ASB) in 1998? If not, why not?***

Yes, we agree that the Statement ‘Preliminary announcements’ is no longer necessary since the Listing Rules do not require a preliminary announcement to be issued. However, the Forward to the Statement ‘Preliminary announcements’ notes that the statement; “*provides valuable guidance for directors wishing to embrace best practice when preparing their preliminary announcements*”. We, therefore, ask the FRC to consider providing updated “*best practice guidance*” in due course.

**Question 2**

***Do you agree with the proposal to withdraw the Statement Half-yearly financial reports issued by the ASB in 2007 and replace it with interim financial reporting requirements based on IAS 34 Interim Financial Reporting as proposed in draft FRS 104 Interim Financial Reporting? If not, please give your reasons and propose an alternative approach.***

Yes, we agree that the interim financial reporting requirements for entities that adopt FRS 102 or FRS 101 should be based on the principles and underlying objectives of IAS 34.

However, we ask the FRC to consider issuing updated guidance on the “half-yearly management report” and “other disclosures”, per the Statement ‘Half-yearly financial reports’, as in our view this would be useful to preparers of interim financial reports.

**Question 3**

***Draft FRS 104 proposes amendments to the reporting requirements in IAS 34 in order to adapt them for use by entities that apply FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland to prepare the annual financial statements. The Accounting Council’s Advice to the FRC to issue FRED 56 highlights the key changes. Do you agree with the proposed amendments? If not, please give your reasons.***

We agree with most of the proposed amendments, particularly that reconciliations required when a new accounting framework is adopted should be included within Draft FRS 104, rather than as an amendment to Section 35 of FRS 102.

However, it would be helpful if Draft FRS 104 included a statement on the purpose of interim financial reports, per paragraph 6 of IAS 34, i.e. that “*the interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.*” Notwithstanding this principle, we ask the FRC to consider a further exemption from the requirement to present a statement of cash flows, as follows.



**Appendix 1 (continued)**

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Entities that either apply FRS 101 or the reduced disclosures in FRS 102 for the first time, may not present a statement of cash flows in their next annual financial statements but might have presented a statement of cash flows in the most recent annual financial statements prepared under previous GAAP.

In applying paragraph 8C of Draft FRS 104, as currently drafted, those entities would be required to present a statement of cash flows in their interim financial reports. We would ask to FRC to consider an exemption from the requirement to present a statement of cash flows for qualifying entities that are first-time adopters of FRS 102 or FRS 101 and whose shareholders have been notified in writing about, and do not object to, the use of the reduced disclosure framework. We consider that this forward-looking approach could be extended to other changes in circumstances in subsequent periods, such as an entity that becomes or ceases to be a qualifying entity.

The glossary to Draft FRS 104 includes a number of terms that could be excluded as they are not used in Draft FRS 104. It also excludes definitions of terms used in Draft FRS 104, such as ‘chief operating decision maker’, which would aid preparers and users if they were included.

**Question 4**

***There may be a small number of entities that are required to prepare interim financial reports and apply FRS 101 Reduced Disclosure Framework to prepare the annual financial statements. Paragraph 3A of draft FRS 104 requires that these entities should read references to FRS 102 in draft FRS 104 as the equivalent requirements in EU-adopted IFRS as amended by paragraph AG1 of FRS 101. Do you agree with this proposal? If you believe further changes are necessary to enable these entities to apply draft FRS 104 please state your recommendations and reasons for your proposal.***

We agree with the proposal, but refer to our request in response to question 3 to consider further exemptions from the requirement for adopters of FRS 101 to prepare a statement of cash flows.



**Appendix 1 (continued)**

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***Question 5***

***Do you agree that applying draft FRS 104 will result in useful information for users of interim financial reports? If not, what additional disclosures should in your view be included or which disclosures should be removed? Please give your reasons.***

The illustrative example appendices to IAS 34 are useful and we would ask the FRC to consider including similar guidance within Draft FRS 104, i.e. an illustration of periods required to be presented (Appendix A of IAS 34), examples of applying the recognition and measurement principles (Appendix B of IAS 34), and examples of the use of estimates (Appendix C of IAS 34).

We also consider that the following minor changes could add clarity:

- Paragraph 8B – Permits the use of other titles for statements, which is in-line with paragraph 5 of IAS 34, but we would suggest that other titles should only be permitted if they were used in the most recent annual financial statements or are expected to be used in the first annual financial statements prepared in accordance with FRS 101 or FRS 102. This would follow the alignment of headings and subtotals with the most recent annual financial statements in paragraph 10 of Draft FRS 104.
- Paragraph 20(b) – For completeness, it would be helpful if this paragraph also referred to a single statement of income and retained earnings and entities with no items of other comprehensive income, in-line with paragraph 8 of Draft FRS 104.

We also refer to our response to question 3.