



**KPMG LLP**  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

Tel +44 (0) 20 7311 1000  
Fax +44 (0) 20 7311 3311  
DX 38050 Blackfriars

Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS  
[ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Our ref djw/blp

Contact Lynn Pearcy

For the attention of Susanne Pust Shah

13 January 2015

Dear Sir / Madam

**Financial Reporting Exposure Draft 56: Draft FRS 104 *Interim Financial Reporting***

We are grateful for the opportunity to comment on the Draft FRS 104 *Interim Financial Reporting*. We have responded to the specific questions in appendix 1 and set out certain other comments in appendix 2.

If you wish to discuss any of the points raised, please contact Lynn Pearcy on 020 7694 8075.

Yours faithfully

KPMG LLP

*Enclosures:*

*Appendix 1: Responses to specific questions raised in FRED 56*

*Appendix 2: Other comments on the draft FRS*



## Appendix 1: Responses to specific questions raised in FRED 56

**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: on the basis that (since January 2007) it has not reflected the current requirements (section LR 9.7A) of the Listing Rules of the London Stock Exchange, we agree with the proposal to withdraw the Reporting Statement *Preliminary announcements*.

It might be worthwhile, in the press release announcing the withdrawal of this Reporting Statement, drawing readers' attention to the FCA's Technical Note on preliminary announcements UKLA/TN/502.1 (<http://www.fca.org.uk/your-fca/documents/ukla/technical-note-preliminary-statement-of-annual-results>) as the requirements of LR 9.7A.1R(3) are often not fully understood.

**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 with the approach that the FRC is proposing to adopt.

**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 generally agree with the amendments to IAS 34 proposed by the FRC. However, we believe that the terminology proposed for FRS 104 should be amended so that the scope of the "financial information" section of interim reports is clear.

Paragraph 1A of draft FRS 104 and the Glossary use the term "interim financial reports" and this term is also used widely elsewhere in draft FRS 104. However, the term "interim financial statements" is also used (e.g., in paragraphs 8 and 20, including in the heading to the latter). We believe that this will cause considerable confusion about whether the term "interim financial report" should be read as incorporating any front-end material or as meaning only the "back-end". The distinction is important so far as assessing the completeness of the back-end is concerned, particularly when an auditor's interim review report is being issued. We note that the IASB's Annual Improvements to IFRSs 2012-2014 amended IAS 34 to address concerns that the scope of the defined term "interim financial report" in that standard was unclear and believe that it would be sensible for the FRC to seek to avoid any such confusion arising on its standard.

DTR 4.2.3R requires certain entities to prepare a “half-yearly financial report”, which contains condensed financial statements, an interim management report and a responsibility statement. DTR 4.2.4R(2) sets out that those condensed financial statements contain at least a condensed balance sheet, a condensed profit and loss account and “explanatory notes on these accounts”. It therefore seems clear that the interim financial statements required by the DTR are just one element of the interim report that they require. However, draft FRS 104 paragraph 8 sets out the same minimum components of an interim financial report (except that it requires also two further primary statements) as those set out by the DTR for interim financial statements.

As an example of the confusion that might be caused, we note that paragraph 8D of draft FRS 104 refers to “the condensed financial statements and selected explanatory notes”, implying that the notes are separate from the financial statements. As another example, paragraphs 15B and 16A require that certain disclosures may be made either in “the notes to the interim financial statements” or elsewhere in “the interim financial report” (and then cross-referred to from the notes to the financial statements), implying that the interim financial report may contain much more than simply the interim financial statements and leaving it unclear when a cross-reference might be required in order for the notes to be complete.

**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.

Yes: we agree with the approach that the FRC is proposing to adopt.

**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 approach in FRS 102 for discontinued operations as compared to IFRS 5 is very different with additional disclosure requirements for annual financial statements required under FRS 102 paragraphs 5.7D and 5.7E. In draft FRS 104 the only disclosure currently proposed for discontinued operations is in paragraph 16A(i).

We believe that FRS 104 could usefully contain similar disclosures to those required under FRS 102 paragraph 5.7D and 5.7E.

## Appendix 2

### Other comments on the draft FRS

1. Paragraph 2 states that “This [draft] FRS applies to interim financial reports and is intended for use by entities that prepare annual financial statements in accordance with FRS 102.” This would appear to require its application by any entity preparing an interim financial report.

For UK GAAP entities subject to the DTR this has no consequence as DTR 4.2.10R(4) requires compliance with FRC pronouncements on interim reporting.

However, for an AIM listed entity, AIM Rule 18 does not mandate use of either IAS 34 for an EU-IFRS preparer or relevant FRC pronouncements for a UK GAAP preparer. As such, AIM entities may at present apply only the recognition and measurement requirements of EU-IFRS / UK GAAP and not the full requirements of IAS 34 / the Reporting Statement *Half-yearly financial reports*.

The drafting of paragraph 2 of draft FRS 104 appears to mandate use of FRS 104 by AIM listed UK GAAP preparers. However, this seems inconsistent with the drafting of paragraph 3 of draft FRS 104 and of paragraph 12 of the Accounting Council’s Advice, which require full compliance only if the entity makes a statement of compliance.

We would suggest updating the wording of paragraph 2 to: “This [draft] FRS applies ~~to~~ if an entity is required to or elects to prepare an interim financial reports in accordance with this [draft] FRS and is intended ...” as this would remove any apparent inconsistency.

2. We would expect Footnote 1 (at present just in paragraph (vii) of the Summary) to be included also in the standard itself. This might be in either or both of paragraph 3B and the Glossary.
3. Paragraphs 8 (twice), 8C, 9 and 10 of draft FRS 104 all refer to the most recent annual financial statements. Whilst these references are appropriate on an ongoing basis this will not be applicable say for a June 2015 interim prepared before an entity prepares its first annual financial statements for December 2015 under new UK GAAP. Acknowledgement of this in a transitional relief would be helpful.
4. Paragraph 8B of draft FRS 104 states that an entity may use titles for the statements other than those used in this draft FRS as long as they are not misleading. Surely the names used should also be consistent with those used in the most recent annual financial statements, though, to avoid confusion?
5. Paragraph 14 of IAS 34 refers to the need to prepare consolidated interim financial statements if the most recent annual financial statements were prepared on a consolidated basis and that the standard neither requires nor prohibits the inclusion of parent-company only interim financial statements. These issues appear equally relevant to entities preparing interim financial statements under draft FRS 104.
6. It is not clear whether FRC intends that key management personnel compensation might have to be disclosed in condensed interim financial statements if it is significant to the interim period. Paragraph 15B(j) of draft FRS 104 does not currently exclude this type of related party transaction.

7. Should “most recent” be added before “annual financial statements” in paragraph 16A(g) of draft FRS 104?
8. Paragraph 16A(h) of draft FRS 104 uses “financial statements for the interim period”. Leaving aside our separate comments in our response to question 3 on the term to be used, this is inconsistent with “interim financial report” in 16A(g) and we would expect consistency.
9. Using the term “financial reporting framework”, rather than “accounting framework”, throughout the standard would be more consistent with the description of the standards as “financial reporting standards”. For example, paragraph 16B of draft FRS 104 uses a mixture of both terms, as well as “reporting framework”.
10. In paragraph 20(b) of draft FRS 104 the cross-reference to paragraph 3.17 should be 3.17(b)(ii) to be consistent with that used in paragraph 8A of draft FRS 104.
11. Paragraph 20(c) of draft FRS 104 refers only to a statement of changes in equity. This paragraph probably also needs to refer back to paragraph 8 of draft FRS 104 which refers to the ability in limited circumstances to present instead a single statement of income and retained earnings.
12. We believe that paragraph 46 of draft FRS 104 should say instead that FRS 104 may not be adopted prior to the first annual reporting period in which the preparer adopts FRS 102. This would permit early-adopters of FRS 102, for example entities with non-calendar year ends, also to early-adopt FRS 104.