Exposure Draft

Financial Reporting Council

November 2014

FRED 56

Draft FRS 104
Interim Financial Reporting

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

FRC Financial Reporting Council

November 2014

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Draft FRS 104
Interim Financial Reporting

Draft FRS 104 is issued by the Financial Reporting Council. Once finalised, it is intended that FRS 104 is a pronouncement on interim reporting that UK and Irish issuers not using EU-adopted IFRS may apply under the Disclosure and Transparency Rules and the Transparency (Directive 2004/109/EC) Regulations 2007 respectively.

Contents

Summary

(i) In 2012, 2013 and 2014 the Financial Reporting Council (FRC) revised accounting standards in the United Kingdom (UK) and Republic of Ireland (RoI). The revisions fundamentally reformed financial reporting, replacing the extant standards with four Financial Reporting Standards:

(a) FRS 100 *Application of Financial Reporting Requirements*;

(b) FRS 101 *Reduced Disclosure Framework*;

(c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and

(d) FRS 103 *Insurance Contracts*.

(ii) The FRC's overriding objective in setting financial reporting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

(iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and RoI entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

(iv) This Financial Reporting Exposure Draft (FRED) sets out Draft Financial Reporting Standard 104 *Interim Financial Reporting* which is intended to replace the Statement *Half-yearly financial reports* issued by the Accounting Standards Board (ASB) in 2007 (ASB Statement Half-yearly reports).

(v) This FRED is also proposing to withdraw the Statement *Preliminary announcements* issued by the ASB in 1998 (ASB Statement Preliminary announcements).

Reasons for replacing the ASB Statement Half-yearly reports

(vi) When FRS 102 was issued, the FRC decided that FRS 102 should not contain interim reporting requirements, but that instead the existing reporting guidance contained in the ASB Statement Half-yearly reports should be reviewed.

(vii) The ASB updated the ASB Statement Half-yearly reports in July 2007 for the implementation of the EU Transparency Directive (Directive 2004/109/EC) in the UK and RoI which resulted in the introduction of the Disclosure and Transparency Rules (DTRs) and the Transparency (Directive 2004/109/EC) Regulations 2007 respectively. Issuers continue to have the same reporting obligations under the DTRs[1] in relation to half-yearly financial reports, but updating the ASB Statement Half-yearly reports is

[1] References to the UK DTRs should also be read as references to the Irish Transparency (Directive 2004/109/EC) Regulations 2007.

necessary because of the revisions to the annual financial reporting requirements referred to in paragraph (i) above.

Reasons for withdrawing the ASB Statement Preliminary announcements

(viii) When the ASB Statement Preliminary announcements was published in 1998, the Listing Rules of the London Stock Exchange and the Listing Rules of the Irish Stock Exchange required issuers to make a preliminary statement of their annual results (preliminary announcements). Since 2007 the publication of preliminary announcements has been voluntary under the Listing Rules[2] applicable in the UK and RoI. Since then market practice has developed and today preliminary announcements often exceed the minimum content prescribed by the Listing Rules[2].

(ix) In our view the ASB Statement Preliminary announcements is obsolete and we therefore propose to withdraw it.

Draft FRS 104 *Interim Financial Reporting*

(x) This FRED proposes to replace the ASB Statement Half-yearly reports with draft FRS 104 which is based on interim financial reporting requirements promulgated by the International Accounting Standards Board in IAS 34 *Interim Financial Reporting*.

(xi) Draft FRS 104 is intended to apply to interim financial reports prepared by entities that apply FRS 102 to prepare the annual financial statements. Entities applying other sets of accounting standards to prepare the annual financial statements may also use draft FRS 104 as a basis for the interim financial reports, provided that this is appropriate and not prohibited by law or regulation.

(xii) Draft FRS 104 does not impose an obligation on entities to produce interim financial reports, but entities that make a statement of compliance with the draft standard are required to apply all provisions of draft FRS 104. The interim reporting requirements are proposed to come into effect for interim periods commencing on or after 1 January 2015 and the ASB Statement Half yearly reporting will be withdrawn on the same date.

(xiii) This FRED also proposes to withdraw the ASB Statement Preliminary announcements with immediate effect, once FRS 104 has been finalised.

(xiv) The comment period on this FRED closes on 12 January 2015 and we expect to publish the final standard by the end of the first quarter of 2015.

(xv) When issuing final FRS 104 in 2015, the FRC will also revise the *Foreword to Accounting Standards* to clarify that a Financial Reporting Standard (FRS) may be either an accounting standard, or address another aspect of financial reporting. The status of each FRS will be made clear.

Organisation of draft FRS 104

(xvi) In order to maintain consistency with the paragraph numbering of IAS 34, when a paragraph in IAS 34 has been deleted and not replaced with an alternative paragraph, the phrase [not used] is stated.

(xvii) Terms defined in the Glossary (Appendix I) are in **bold type** the first time they appear in draft FRS 104.

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2 Reference includes the Listing Rules of the UK Listing Authority and the Irish Stock Exchange.

Invitation to comment

1. The Financial Reporting Council (FRC) is requesting comments on this Financial Reporting Exposure Draft (FRED) by 12 January 2015. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of this FRED. In particular, comments are sought in relation to the questions below.

> **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?
>
> **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.
>
> **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.
>
> **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.
>
> **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.

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 36.

[Draft] FRS 104
Interim Financial Reporting

Objective

1 **Timely** and **reliable** interim financial reporting can improve the ability of investors, creditors or others to understand an entity's capacity to generate earnings and **cash flows** and its **financial position** and liquidity.

1A This [draft] FRS sets out content, **recognition** and **measurement** principles for **interim financial reports**.

Scope

2 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**.

2A This [draft] FRS does not mandate which entities should publish interim financial reports, nor does it prescribe how frequently or how soon after the end of an **interim period** they should be issued.

3 Any entity may apply this [draft] FRS when preparing interim financial reports, provided applicable laws or regulations do not prohibit its application. An entity that makes a statement of compliance with this [draft] FRS shall comply with all provisions of this [draft] FRS.

3A If entities that prepare the annual financial statements in accordance with **FRS 101** apply this [draft] FRS, references made in this [draft] FRS to FRS 102 shall be read as references to the equivalent requirements in **EU-adopted IFRS** as amended by paragraph AG1 of FRS 101.

3B This [draft] FRS is a pronouncement on interim reporting as described in paragraph 4.2.10(4)R of the **DTRs**.

4 [Not used]

Content of an interim financial report

5-7 [Not used]

Components of an interim financial report

8 An interim financial report shall include, at a minimum, the following components:

(a) a condensed **statement of financial position**;

(b) a single condensed **statement of comprehensive income** or a separate condensed **income statement** and a separate condensed statement of comprehensive income;

(c) a condensed statement of changes in **equity**;

(d) a condensed **statement of cash flows**; and

(e) selected explanatory notes.

An entity that has presented a single **statement of income and retained earnings** in place of the statement of comprehensive income and statement of changes in equity in accordance with paragraph 3.18 of FRS 102 in the most recent annual financial statements, is permitted to present a single condensed statement of income and retained earnings, if during any of the periods for which the interim financial statements are required to be presented in accordance with paragraph 20, the only changes to equity arise from **profit or loss**, payment of dividends, corrections of prior period **errors**, and changes in **accounting policy**.

An entity that has presented only an income statement, or a statement of comprehensive income in which the 'bottom line' is labelled 'profit or loss' in accordance with paragraph 3.19 of FRS 102 in the most recent annual financial statements, is permitted to use the same basis of presentation if there are no items of **other comprehensive income** in any of the periods for which the interim financial statements are required to be presented in accordance with paragraph 20.

8A If an entity presents items of profit or loss in a separate statement as described in paragraph 3.17(b)(ii) of FRS 102, it presents interim condensed information from that statement.

8B An entity may use titles for the statements other than those used in this [draft] FRS as long as they are not misleading.

8C Paragraph 8(d) does not apply to entities that did not present a statement of cash flows in the most recent annual financial statements.

8D Nothing in this [draft] FRS is intended to prohibit or discourage an entity from publishing a complete set of financial statements as described in Section 3 of FRS 102, instead of the condensed financial statements and selected explanatory notes described in paragraph 8. A complete set of financial statements shall include all of the disclosures required by this [draft] FRS as well as the disclosures required by FRS 102. The recognition and measurement requirements set out in this [draft] FRS also apply to a complete set of financial statements.

Form and content of interim financial statements

9 If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Section 3 of FRS 102 for a complete set of financial statements. Entities that did not present a statement of cash flows in the most recent annual financial statements are not required to include that statement in the interim financial report.

10 The condensed interim financial statements shall include, at a minimum, each of the headings and subtotals that were included in the entity's most recent annual financial statements and the selected explanatory notes as required by this [draft] FRS. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.

11 In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of paragraph 1.4 of FRS 102.

11A If an entity presents items of profit or loss in a separate statement as described in paragraph 3.17(b)(ii) of FRS 102, it presents basic and diluted earnings per share in that statement.

12 [Not used]

13 [Deleted]

14 [Not used]

Significant events and transactions

15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and **performance** of the entity since the end of the last annual **reporting period**. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the interim financial report to provide relatively insignificant updates to the information that was reported in the most recent annual financial report.

15B The following is a list of events and transactions for which disclosures would be required, if they are significant, either in the notes to the interim financial statements; or if disclosed elsewhere in the interim financial report, cross-referred to the disclosure in the notes to the interim financial statements: the list is not exhaustive.

(a) the write-down of **inventories** to net realisable value and the reversal of such a write-down;

(b) recognition of a loss from the impairment of **financial assets**, **property, plant and equipment**, **intangible assets**, or other **assets**, and the reversal of such an **impairment loss**;

(c) the reversal of any **provisions** for the costs of **restructuring**;

(d) acquisitions and disposals of items of property, plant and equipment;

(e) commitments for the purchase of property, plant and equipment;

(f) litigation settlements;

(g) corrections of prior period errors;

(h) changes in the business or economic circumstances that affect the **fair value** of the entity's financial assets and **financial liabilities**, where those assets or liabilities are measured at fair value;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

(j) **related party transactions**, unless the transaction was entered into between two or more members of a **group**, provided that any **subsidiary** which is party to the transaction is wholly owned by such a member; and

(k) [not used]

(l) [not used]

(m) changes in **contingent liabilities** or **contingent assets**.

15C Individual sections of FRS 102 provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.

16–18 [Deleted]

Other disclosures

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, either in the notes to its interim financial statements; or if disclosed elsewhere in the interim financial report, cross-referred to the information in the notes to the interim financial statements. The information shall normally be reported on a financial year-to-date basis.

(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

(b) explanatory comments about the seasonality or cyclicality of interim operations.

(c) the nature and amount of items affecting assets, **liabilities**, equity, profit or loss or cash flows that are unusual because of their nature, size or incidence.

(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

(e) issues, repurchases and repayments of debt and equity securities.

(f) dividends paid (aggregate or per share) separately for **ordinary shares** and other shares.

(g) the following segment information (disclosure of segment information is required in an entity's interim financial report only if the entity presents segment information in accordance with IFRS 8 *Operating Segments* (as adopted in the EU) in the annual financial statements):

(i) **revenues** from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker.

(iii) a measure of segment profit or loss.

(iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a **material** change from the amount disclosed in the last annual financial statements for that reportable segment.

(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before **tax expense** (tax income) and **discontinued operations**. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

(h) events after the interim period that have not been reflected in the financial statements for the interim period.

(i) the effect of changes in the composition of the entity during the interim period, including **business combinations**, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by paragraphs 19.25 and 19.25A of FRS 102.

(j) for **financial instruments** disclosures that help users of interim financial reports to evaluate the significance of financial instruments measured at fair value; the entity shall disclose the information required by paragraphs 11.43, 11.48A(e) and 34.22 of FRS 102 (disclosure of this information is required in an entity's interim financial report only if the entity would be required to make the disclosure in the annual financial statements).

(k) [not used]

16B An interim financial report that covers part of an annual financial reporting period during which an entity transitions from one accounting framework to another, shall in order to comply with the disclosure requirements in paragraph 16A(a) disclose the following information:

(a) a description of the nature of each change in accounting policy;

(b) a reconciliation of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with the new reporting framework for the following dates:

(i) the **date of transition** to the new accounting framework; and

(ii) at the end of the comparable year-to-date period of the immediately preceding financial year; and

(c) a reconciliation of profit or loss determined in accordance with its previous financial reporting framework for the comparable interim period (current and if different year-to-date) of the immediately preceding financial year.

The requirements of paragraph 35.14 of FRS 102 apply in respect of the reconciliations presented.

Disclosure of compliance with this [draft] FRS

19 If an entity's interim financial report is in compliance with this [draft] FRS, that fact shall be disclosed.

Periods for which interim financial statements are required to be presented

20 Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.

(b) separate statements of income and of comprehensive income for the current interim period and, if different, cumulatively for the current financial year to date, with comparative separate statements of income and of comprehensive income for the comparable interim period (current and if different year-to-date) of the immediately preceding financial year. As permitted by paragraph 3.17 of FRS 102, an interim report may present for each period a single statement of comprehensive income.

(c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

(d) statement of cash flows cumulatively for the current financial year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. This requirement does not apply to entities that do not present a statement of cash flows in accordance with paragraphs 8C and 9.

21 For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful. Accordingly, entities whose business is highly seasonal are encouraged to consider reporting such information in addition to the information called for in the preceding paragraph.

22 [Not used]

Materiality

23 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

24 As described in paragraph 2.6 of FRS 102, an item is material if its omission or misstatement could influence the economic decisions of users of the financial statements.

25 While judgement is always required in assessing materiality, this [draft] FRS bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is **relevant** to understanding an entity's financial position and performance during the interim period.

26-27 [Not used]

Recognition and measurement

Same accounting policies as annual

28 An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.

28A The frequency of an entity's reporting (annual, half-yearly or quarterly) shall not affect the measurement of its annual results, with the exception described in paragraph 30(a). To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.

29 Year-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current financial year. But the principles for recognising assets, liabilities, **income**, and **expenses** for interim periods are the same as in annual financial statements.

30 To illustrate:

(a) The principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that an entity would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount, unless the reversal of a previously recognised impairment is prohibited by FRS 102.

(b) A cost that does not meet the definition of an asset at the end of an interim period is not deferred in the statement of financial position either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year.

(c) **Income tax** expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year, using the tax rates and laws that have been enacted or **substantively enacted** at the end of an interim reporting period. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

31 Under Section 2 *Concepts and Pervasive Principles* of FRS 102, recognition is the "...process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an asset, liability, equity, income or expense and satisfies the ... criteria [for recognition]". The definitions of assets, liabilities, equity, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.

32 For assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

33 An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. Section 2 of FRS 102 says that "an entity shall recognise expenses in the statement of comprehensive income (or in the income statement, if presented) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably". Section 2 of FRS 102 does not allow the recognition of items in the statement of financial position which do not meet the definition of assets or liabilities.

34 In measuring the assets, liabilities, equity, income, expenses, and cash flows reported in its financial statements, an entity that reports only annually is able to take into account information that becomes available throughout the financial year. Its measurements are, in effect, on a year-to-date basis.

35 An entity uses information available when the interim financial statements are being prepared. Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in the last published financial statements. The amounts reported in the last published financial statements, whether at the end of a prior interim period or at the end of the prior financial year, are not retrospectively adjusted for a **change in accounting estimate**. Paragraph 16A(d) requires that the nature and amount of any significant changes in estimates are disclosed.

36 [Not used]

Revenues received seasonally, cyclically, or occasionally

37 Revenues that are received seasonally, cyclically, or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.

38 Examples include dividend revenue, royalties, and government grants. Additionally, some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods, for example, seasonal revenues of retailers. Such revenues are recognised when they occur.

Costs incurred unevenly during the financial year

39 Costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

40 [Not used]

Use of estimates

41 The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.

42 [Not used]

Restatement of previously reported interim periods

43 A change in accounting policy, other than one for which the transition is specified in FRS 102, shall be reflected by:

(a) restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Section 10 of FRS 102; or

(b) when it is **impracticable** to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years to apply the new accounting policy **prospectively** from the earliest date practicable.

44 One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under Section 10 of FRS 102, a change in accounting policy is reflected by **retrospective application**, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under Section 10 of FRS 102 the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph 43 is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year.

45 To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.

Effective date

46 This [draft] FRS is effective for interim periods beginning on or after 1 January 2015.

Withdrawal of ASB Statements

47 The Statement *Half-yearly financial reports* issued by the Accounting Standards Board in 2007 will be withdrawn for interim periods beginning on or after 1 January 2015.

48 The Statement *Preliminary announcements* issued by the Accounting Standards Board in 1998 will be withdrawn with immediate effect.

49-56 [Not used]

The Accounting Council's Advice to the FRC to issue FRED 56 Draft FRS 104 Interim Financial Reporting

Introduction

1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRED 56 *Draft FRS 104 Interim Financial Reporting*.

2 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:

(a) it is apparent that a significant group of stakeholders has not been adequately consulted;

(b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;

(c) insufficient consideration has been given to the timing or cost of implementation; or

(d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.

3 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of financial reporting standards.

Advice

4 The Accounting Council is advising the FRC to issue FRED 56 *Draft FRS 104 Interim Financial Reporting* to:

(a) replace the existing interim financial reporting guidance in the Reporting Statement *Half-yearly financial reporting* issued by the Accounting Standards Board (ASB) in 2007 (ASB Statement Half-yearly reports) with a standard that is based on IFRS to ensure that the FRC's interim and revised annual reporting requirements are based on a consistent framework; and

(b) withdraw the Reporting Statement *Preliminary announcements* issued by the ASB in 1998 (ASB Statement Preliminary announcements) because the reporting guidance is out-of-date and obsolete.

Background

5 The ASB issued the ASB Statement Half-yearly reports in July 2007 in response to the introduction of the Disclosure and Transparency Rules (DTRs)[3] and the more comprehensive half-yearly financial reporting requirements contained therein. When FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* was issued, the FRC decided that FRS 102 should not contain interim reporting requirements, but that instead the existing reporting guidance contained in the ASB Statement Half-yearly reports should be reviewed.

6 When the ASB Statement Preliminary announcements was published in 1998, issuers in the United Kingdom (UK) and Republic of Ireland (RoI) were required to make a preliminary statement of their annual results (preliminary announcements). Since 2007 the

[3] References to the Disclosure and Transparency Rules applicable in the UK should be read to include references to the Transparency (Directive 2004/109/EC) Regulations 2007 applicable in the Republic of Ireland.

publication of preliminary announcements has been voluntary and market practice has developed. Today preliminary announcements often exceed the minimum content prescribed by the Listing Rules.

Objective

7 The FRC gives careful consideration to its objective and the intended effects when developing new financial reporting standards or requirements for the UK and RoI. In developing financial reporting standards, including draft FRS 104, the overriding objective of the FRC is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

8 In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way businesses operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

9 Draft FRS 104 is proposing to replace the existing interim reporting guidance contained in the ASB Statement Half-yearly reports. The objectives of draft FRS 104 are to introduce interim reporting requirements that, consistently with the revised UK and Irish annual reporting requirements, are based on IFRS and to promote the publication of useful interim financial information at an interim date.

Half-yearly financial reporting

Basis and scope of draft FRS 104

10 The FRC consulted on the introduction of interim financial reporting requirements in FRS 102 in FRED 48 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* during 2012. The FRC proposed that entities preparing interim financial reports should apply IAS 34 *Interim Financial Reporting*. Respondents agreed with this proposal, although they also highlighted a potential problem with the scope of the requirement to apply IAS 34 (as drafted in FRED 48) in that it might extend the requirement to prepare interim reports beyond those set by the relevant regulators.

11 In line with the proposal in FRED 48, draft FRS 104 is based on the reporting requirements in IAS 34, although certain adaptations are being proposed to tailor the reporting requirements for entities that prepare the annual financial statements in accordance with FRS 102. To address the concerns raised by respondents to FRED 48 in relation to the scope of the interim reporting requirements, draft FRS 104 makes it clear that it does not impose an obligation on entities to prepare interim financial reports. Applicable law or regulation may, nevertheless, contain such a requirement.

12 The application of all of the provisions of draft FRS 104 is required when an entity makes a statement of compliance with the standard, regardless of whether the entity is required to do so or whether an entity applies draft FRS 104 on a voluntary basis.

13 Consistently with the ASB Statement Half-yearly reports, draft FRS 104 is intended for use by entities that prepare the annual financial statements in accordance with UK and Irish GAAP. This draft standard has been developed primarily for entities reporting in accordance with FRS 102 because the majority of entities using draft FRS 104 will apply FRS 102 to prepare the annual financial statements. We are mindful, however, that some entities may prepare the annual financial statements in accordance with FRS 101 *Reduced Disclosure Framework.* These entities may be required to produce half-yearly financial reports in accordance with the DTRs because, although being a member of a listed group, they have issued their own listed debt securities. Draft FRS 104 requires that these entities should read any reference to a specific requirement in FRS 102 as a reference to the equivalent requirement in EU-adopted IFRS, as amended by paragraph AG1 of FRS 101.

Key changes to IAS 34

14 The reporting requirements of IAS 34 have been adapted for application by entities that prepare the annual financial statements in accordance with FRS 102. The key changes made to IAS 34 for the purpose of developing draft FRS 104 include:

(a) the disclosure requirements in relation to fair values apply only if the same disclosure would be required in the annual financial statements;

(b) related party disclosures may be omitted for transactions between wholly owned members of a group, since FRS 102 exempts such transactions from disclosure in the annual financial statements;

(c) disclosure requirements that apply when an entity adopts a new accounting framework for the first time have been inserted. Similar disclosures are required under IFRS, although they are not part of IAS 34;

(d) the annual financial statements disclosure requirements in paragraph 26 of IAS 34 concerning significant changes of estimates reported in an interim period have been deleted, because draft FRS 104 addresses only reporting requirements in interim financial reports;

(e) the principle that the frequency of reporting should not affect the measurement of the annual results has been qualified where FRS 102 would prohibit a reversal of an impairment[4]. This is consistent with the requirements in IFRIC 10 *Interim Financial Reporting and Impairment;* and

(f) the Illustrative examples accompanying IAS 34 have not been repeated in draft FRS 104.

Statement of compliance under the DTRs

15 FRS 104, once finalised, is intended to constitute the relevant pronouncement that UK issuers not applying EU-adopted IFRS may use as the basis for the preparation of the interim financial statements, as stated in paragraph 4.2.10(4)R of the DTRs. As described in the DTRs the application of draft FRS 104 is conditional upon the person making the responsibility statement having reasonable grounds to be satisfied that the condensed set of financial statements prepared in accordance with draft FRS 104 are not misleading.

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[4] FRS 102 as issued does not prohibit the reversal of impairments. However, as set out in the FRC Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive* issued in September 2014, FRS 102 may be amended in the future in respect of the reversal of goodwill impairment charges in response to revised requirements set out in the new EU Accounting Directive (Directive 2013/34/EU).

Other information included in the interim financial report

16 Draft FRS 104 sets out the minimum components of an interim financial report and, consistently with IAS 34, requires only the inclusion of a set of interim financial statements and explanatory notes. Although additional narrative information can be useful for an understanding of the financial performance and position of an entity at an interim period, the Accounting Council believes that in the majority of situations the disclosures proposed in draft FRS 104 are adequate.

17 The disclosure requirements in draft FRS 104 complement the DTRs' disclosure requirements in the interim management report and the Accounting Council advises that it is not necessary to impose separate narrative reporting requirements in draft FRS 104.

Comparative information

18 Draft FRS 104 requires entities to present comparative period information and the comparatives have to be presented on the same basis as the current period information. Entities which adopt FRS 102 for accounting periods begining on or after 1 January 2015 are therefore required to restate the comparative period information in accordance with FRS 102. Additionally, as set out in paragraph 16B of draft FRS 104, entities should provide explanations of the effect of the accounting policy changes, as well as reconciliations of equity and profit or loss. The Accounting Council advises that these disclosures are necessary for users of interim financial reports to understand the impact of the adoption of the new accounting standard.

19 The Accounting Council advises that no transitional provisions are needed in respect of the transition from the ASB Statement Half-yearly reports to draft FRS 104.

Preliminary announcements

20 The ASB Statement Preliminary announcements issued in 1998 is out-of-date and obsolete. The Accounting Council therefore advises that the ASB Statement Preliminary announcements should be withdrawn.

Effective date

21 It is proposed that the interim financial reporting requirements replacing the ASB Statement Half-yearly reports are effective from the same date as FRS 102 and will apply to interim periods beginning on or after 1 January 2015. The ASB Statement Preliminary announcements is proposed to be withdrawn with immediate effect, once the final FRS has been issued.

22 Draft FRS 104 does not provide for early adoption of the proposed interim reporting requirements, because the final FRS will be published after the start of the first interim period to which it should be applied.

Appendix I: Glossary

This glossary is an integral part of draft FRS 104.

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting **financial statements**.
asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
associate	An entity, including an unincorporated entity such as a partnership, over which the investor has **significant influence** and that is neither a **subsidiary** nor an interest in a **joint venture**.
business	An integrated set of activities and **assets** conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate **revenues**. If **goodwill** is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business.
business combination	The bringing together of separate entities or **businesses** into one reporting entity.
carrying amount	The amount at which an **asset** or **liability** is recognised in the **statement of financial position**.
cash	Cash on hand and demand deposits.
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of **cash** and that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of **cash** and **cash equivalents**.
cash-generating unit	The smallest identifiable group of **assets** that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
change in accounting estimate	An adjustment of the **carrying amount** of an **asset** or a **liability**, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of **errors**.
component of an entity	Operations and **cash flows** that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

contingent asset	A possible **asset** that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent liability	(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient **reliability**.
control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
current tax	The amount of income tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past **reporting periods**.
date of transition	The beginning of the earliest period for which an entity presents full comparative information in a given standard in its first **financial statements** that comply with that standard.
deferred tax	Income tax payable (recoverable) in respect of the **taxable profit (tax loss)** for future **reporting periods** as a result of past transactions or events.
discontinued operation	A **component of an entity** that has been disposed of and: (a) represented a separate major line of **business** or geographical area of operations; (b) was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) was a **subsidiary** acquired exclusively with a view to resale.
DTRs	Disclosure and Transparency Rules issued by the Financial Conduct Authority.
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
equity	The residual interest in the **assets** of the entity after deducting all its **liabilities**.

errors	Omissions from, and misstatements in, the entity's **financial statements** for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
expenses	Decreases in economic benefits during the **reporting period** in the form of outflows or depletions of **assets** or incurrences of **liabilities** that result in decreases in **equity**, other than those relating to distributions to equity investors.
EU-adopted IFRS	IFRS that have been adopted in the European Union in accordance with EU Regulation 1606/2002.
fair value	The amount for which an **asset** could be exchanged, a **liability** settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. The guidance in paragraphs 11.27 to 11.32 of **FRS 102** shall be used in determining fair value.
fair value less costs to sell	The amount obtainable from the sale of an **asset** or **cash-generating unit** in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
financial asset	Any **asset** that is: (a) **cash**; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or **financial liabilities** with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and: (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial instrument	A contract that gives rise to a **financial asset** of one entity and a **financial liability** or equity instrument of another entity.

financial liability	Any **liability** that is: (a) a contractual obligation: (i) to deliver **cash** or another **financial asset** to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and: (i) under which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial position	The relationship of the **assets**, **liabilities** and **equity** of an entity as reported in the **statement of financial position**.
financial statements	Structured representation of the **financial position**, financial **performance** and **cash flows** of an entity.
financing activities	Activities that result in changes in the size and composition of the contributed **equity** and borrowings of the entity.
FRS 101	FRS 101 *Reduced Disclosure Framework*
FRS 102	FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*
goodwill	Future economic benefits arising from **assets** that are not capable of being individually identified and separately recognised.
group	A **parent** and all its **subsidiaries**.
impairment loss	The amount by which the **carrying amount** of an **asset** exceeds: (a) in the case of **inventories**, its selling price less costs to complete and sell; or (b) in the case of other assets, its **recoverable amount**.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
income	Increases in economic benefits during the **reporting period** in the form of inflows or enhancements of **assets** or decreases of **liabilities** that result in increases in **equity**, other than those relating to contributions from equity investors.
income statement	**Financial statement** that presents all items of **income** and **expense** recognised in a **reporting period**, excluding the items of **other comprehensive income**.

income tax	All domestic and foreign taxes that are based on **taxable profits**. Income tax also includes taxes, such as withholding taxes, that are payable by a **subsidiary**, **associate** or **joint venture** on distributions to the reporting entity.
intangible asset	An identifiable non-monetary asset without physical substance. Such an **asset** is identifiable when: (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**; or (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
interim financial report	A financial report containing the components described in paragraph 8 of this [draft] FRS or a complete set of **financial statements** as described in Section 3 of **FRS 102** for an **interim period**.
interim period	A financial **reporting period** shorter than a full financial year.
inventories	**Assets**: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
joint control	The contractually agreed sharing of **control** over an economic activity. It exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the **venturers**).
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity that is subject to **joint control**. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or **jointly controlled entities**.
jointly controlled entity	A **joint venture** that involves the establishment of a corporation, partnership or other entity in which each **venturer** has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes **joint control** over the economic activity of the entity.
key management personnel	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

material	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the **financial statements**. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
measurement	The process of determining the monetary amounts at which the elements of the **financial statements** are to be recognised and carried in the **statement of financial position** and **statement of comprehensive income**.
ordinary share	An equity instrument that is subordinate to all other classes of equity instrument.
other comprehensive income	Items of **income** and **expense** (including reclassification adjustments) that are not recognised in **profit or loss** as required or permitted by **FRS 102**.
parent	An entity that has one or more **subsidiaries**.
performance	The relationship of the **income** and **expenses** of an entity, as reported in the **statement of comprehensive income**.
post-employment benefits	**Employee benefits** (other than **termination benefits** and short-term employee benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides **post-employment benefits** for one or more employees.
present value	A current estimate of the present discounted value of the future net **cash flows** in the normal course of **business**.
probable	More likely than not.
profit or loss	The total of **income** less **expenses**, excluding the components of **other comprehensive income**.
property, plant and equipment	Tangible **assets** that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.
prospectively (applying a change in accounting policy)	Applying the new **accounting policy** to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A **liability** of uncertain timing or amount.

recognition	The process of incorporating in the **statement of financial position** or **statement of comprehensive income** an item that meets the definition of an **asset, liability, equity, income** or **expense** and satisfies the following criteria: (a) it is **probable** that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with **reliability**.
recoverable amount	The higher of an **asset's** (or **cash-generating unit's**) **fair value less costs to sell** and its **value in use**.
related party	A related party is a person or entity that is related to the entity that is preparing its **financial statements** (the reporting entity). (a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has **control** or **joint control** over the reporting entity; (ii) has **significant influence** over the reporting entity; or (iii) is a member of the **key management personnel** of the reporting entity or of a **parent** of the reporting entity. (b) An entity is related to a reporting entity if any of the following conditions apply: (i) the entity and the reporting entity are members of the same **group** (which means that each parent, **subsidiary** and fellow subsidiary is related to the others). (ii) one entity is an **associate** or **joint venture** of the other entity (or of a member of a group of which the other entity is a member). (iii) both entities are joint ventures of the same third entity. (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity. (v) the entity is a **post-employment benefit plan** for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. (vi) the entity is controlled or jointly controlled by a person identified in (a). (vii) a person identified in (a)(i) has **significant influence** over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
related party transaction	A transfer of resources, services or obligations between a reporting entity and a **related party**, regardless of whether a price is charged.
relevant	The quality of information that allows it to influence the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

reliable or reliability	The quality of information that makes it free from **material error** and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent.
reporting period	The period covered by **financial statements** or by an **interim financial report**.
restructuring	A restructuring is a programme that is planned and controlled by management and materially changes either: (a) the scope of a business undertaken by an entity; or (b) the manner in which that business is conducted.
retrospective application (of an accounting policy)	Applying a new **accounting policy** to transactions, other events and conditions as if that policy had always been applied.
revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in **equity**, other than increases relating to contributions from equity participants.
significant influence	Significant influence is the power to participate in the financial and operating policy decisions of the **associate** but is not **control** or **joint control** over those policies.
statement of cash flows	**Financial statement** that provides information about the changes in **cash** and **cash equivalents** of an entity for a period, showing separately changes during the period from operating, investing and **financing activities**.
statement of comprehensive income	**Financial statement** that presents all items of **income** and **expense** recognised in a period, including those items recognised in determining **profit or loss** (which is a subtotal in the statement of comprehensive income) and items of **other comprehensive income**. If an entity chooses to present both an **income statement** and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
statement of financial position	**Financial statement** that presents the relationship of an entity's **assets**, **liabilities** and **equity** as of a specific date.
statement of income and retained earnings	**Financial statement** that presents the **profit or loss** and changes in retained earnings for a **reporting period**.
subsidiary	An entity, including an unincorporated entity such as a partnership, that is **controlled** by another entity (known as the **parent**).

substantively enacted	Tax rates shall be regarded as substantively enacted when the remaining stages of the enactment process historically have not affected the outcome and are unlikely to do so. A UK tax rate shall be regarded as having been substantively enacted if it is included in either: (a) a Bill that has been passed by the House of Commons and is awaiting only passage through the House of Lords and Royal Assent; or (b) a resolution having statutory effect that has been passed under the Provisional Collection of Taxes Act 1968. (Such a resolution could be used to collect taxes at a new rate before that rate has been enacted. In practice, corporation tax rates are now set a year ahead to avoid having to invoke the Provisional Collection of Taxes Act for the quarterly payment system.) A Republic of Ireland tax rate can be regarded as having been substantively enacted if it is included in a Bill that has been passed by the Dáil.
tax expense	The aggregate amount included in **total comprehensive income** or **equity** for the **reporting period** in respect of **current tax** and **deferred tax**.
taxable profit (tax loss)	The profit (loss) for a **reporting period** upon which income taxes are payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.
termination benefits	**Employee benefits** provided in exchange for the termination of an employee's employment as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.
timely	Providing the information in **financial statements** within the decision time frame.
total comprehensive income	The change in **equity** during a period resulting from transactions and other events, other than those changes resulting from transactions from equity participants (equal to the sum of **profit or loss** and **other comprehensive income**).
value in use	The **present value** of the future **cash flows** expected to be derived from an **asset** or **cash-generating unit**.
venturer	A party to a **joint venture** that has **joint control** over that joint venture.

Appendix II: Note on UK regulatory requirements

A2.1 This Appendix provides an overview of how the requirements in draft FRS 104 complement the legal reporting requirements set out in the Disclosure and Transparency Rules (DTRs) of the United Kingdom (UK) Financial Conduct Authority (FCA).

Scope

A2.2 Draft FRS 104 does not specify whether, how frequently or how soon after the end of an interim period an entity should present interim financial reports. The DTRs set out requirements in this regard.

A2.3 Issuers that are required to publish half-yearly financial reports in accordance with the DTRs must include a responsibility statement in the report. In accordance with paragraph 4.2.10R of the DTRs, a person making the responsibility statement will satisfy the requirement to confirm that the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer (or the undertakings included in the consolidation as a whole) by including a statement that the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*; or for UK issuers not using EU-adopted IFRS, pronouncements on interim reporting issued by the Accounting Standards Board.

A2.4 Draft FRS 104 is intended to constitute a pronouncement on interim reporting for UK issuers not using EU-adopted IFRS as described in the preceding paragraph.

Content and basis of preparation of the interim financial statements

A2.5 In accordance with the DTRs, an issuer that is required to prepare consolidated accounts must prepare the condensed set of financial statements in accordance with IAS 34 and the requirements set out in draft FRS 104 do not apply to these issuers.

A2.6 An issuer that is not required to prepare consolidated accounts must apply the content and preparation requirements set out in paragraph 4.2.5R of the DTRs. The content and preparation requirements of draft FRS 104 are consistent with those described in the DTRs, although they are more prescriptive and detailed.

A2.7 Entities that adopt FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and draft FRS 104 on the same date, are required by the DTRs and draft FRS 104 to prepare the first set of interim financial statements in accordance the new accounting and presentation requirements of FRS 102 and draft FRS 104. Draft FRS 104 also requires certain disclosures in the first set of interim financial statements that is prepared in accordance with the newly adopted accounting policies.

Cross-referencing to the interim management report

A2.8 Paragraphs 4.2.7R and 4.2.8R of the DTRs require issuers to publish an interim management report and specify certain minimum disclosures. Where draft FRS 104 requires disclosure of the same information in the interim financial statements, an issuer is permitted to include a cross-reference to that information, instead of duplicating the same information in the notes.

Appendix III: Republic of Ireland legal references

A3.1 In the Republic of Ireland (RoI) the Investment Funds Companies and Miscellaneous Provisions Act 2006 provides for, inter alia, the implementation of certain aspects of the EU Transparency Directive (Directive 2004/109/EC). Where entities fall within the scope of the EU Transparency Directive, the half-yearly reporting requirements are set out in Regulation 6(2) of the Transparency (Directive 2004/109/EC) Regulations 2007 (Transparency Regulations) and in subsequent amendments therein.

A3.2 This Financial Reporting Exposure Draft includes various references to the requirements of the Disclosure and Transparency Rules (DTRs) of the Financial Conduct Authority as they apply to issuers whose home state is the United Kingdom. The tables below outline the corresponding provisions in the Transparency Regulations applicable to Irish issuers.

A3.3 Draft FRS 104 is intended to constitute a pronouncement on interim reporting for Irish issuers not using EU-adopted IFRS, as provided for in Regulation 8(5)(d)(ii) of the Transparency Regulations.

Draft FRS 104

Paragraph	DTRs reference	Transparency Regulations reference
3B	Paragraph 4.2.10(4)R	Regulation 8(5)(d)

Appendix I: Glossary

'DTRs'	Equivalent aspects of the EU Transparency Directive are implemented in the Republic of Ireland through the Transparency (Directive 2004/109/EC) Regulations 2007.

The Accounting Council's Advice to the FRC to issue FRED 56

Paragraph	DTRs reference	Transparency Regulations reference
15	Paragraph 4.2.10(4)(R)	Regulations 8(5)(d)

Appendix II: Note on UK regulatory requirements

Paragraph	DTRs reference	Transparency Regulations reference
A2.3	Paragraph 4.2.10R	Regulation 6(3)(c) and 8(5)
A2.6	Paragraph 4.2.5R	Regulation 7
A2.7	Paragraph 4.2.6R	Regulation 7(3)
A2.9	Paragraphs 4.2.7R and 4.2.8R	Regulations 8(2) and 8(3)

Consultation Stage Impact Assessment

1 As published in its Regulatory Strategy, the Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises where appropriate.

2 The overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

3 This consultation proposes to:

(a) replace the Statement *Half-yearly financial reports* issued by the Accounting Standards Board (ASB) in 2007 (ASB Statement Half-yearly reports) with interim reporting requirements based on those in IAS 34 *Interim Financial Reporting* adapted for use by entities that apply FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* in their annual financial statements; and

(b) withdraw the Statement *Preliminary announcements* issued by the ASB in 1998 (ASB Statement Preliminary announcements).

4 This Consultation Stage Impact Assessment addresses the following:

(a) the rationale for draft FRS 104;

(b) aspects of draft FRS 104 which augment relevant legislation and diverge from IAS 34; and

(c) an assessment of the cost and benefits of introducing draft FRS 104.

Rationale for draft FRS 104

5 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Draft FRS 104 is intended to promote reliable interim financial reporting that provides useful information about the reporting entity's capacity to generate earnings and cash flows and its financial position and liquidity.

ASB Statement Half-yearly reports

6 The ASB Statement Half-yearly reports was issued in 2007. Given the revision of the UK and Irish annual financial reporting requirements, the FRC decided to review the existing interim reporting guidance.

7 The FRC considered the following options in relation to the interim reporting requirements contained in the ASB Statement Half-yearly reports:

(a) do nothing;

(b) withdraw the ASB Statement Half-yearly reports;

(c) minimal updates to the ASB Statement Half-yearly reports; or

(d) introduce interim reporting requirements that are based on an IFRS-based framework.

8 The content of the ASB Statement Half-yearly reports is based on the half-yearly financial reporting requirements contained in the Disclosure and Transparency Rules (DTRs)[5] and the requirements of the financial reporting standards applicable prior to the introduction of FRS 101 *Reduced Disclosure Framework*, FRS 102 and FRS 103 *Insurance Contracts*. As a result of the changes to UK and Irish accounting standards from 1 January 2015, doing nothing is in the view of the FRC not a viable option.

9 The half-yearly reporting requirements of the DTRs have not changed since their introduction in 2007. Therefore the need for an interim reporting framework for UK and Irish issuers not using EU-adopted IFRS remains. Withdrawing the ASB Statement Half-yearly reports without putting in place alternative interim reporting requirements is therefore not an option.

10 The FRC considered the option of updating the ASB Statement Half-yearly reports solely for references to accounting requirements that will be amended or replaced when FRS 102 becomes effective. Although the key elements of the ASB Statement Half-yearly reports are in all material respects consistent with IAS 34 *Interim Financial Reporting*, the FRC believes that it is preferable to revise the interim financial reporting requirements more comprehensively and base them on an IFRS solution. This is consistent with the approach taken to develop FRSs 102 and 103.

11 Using an IFRS solution as the basis for the UK and Irish annual and interim reporting requirements will, in the view of the FRC, promote high-quality understandable financial reports. The FRC therefore believes option (d) is the most effective solution. Accordingly, draft FRS 104 proposes to base the new interim reporting requirements on IAS 34, adapted for use by entities that apply FRS 102 to prepare the annual financial statements.

ASB Statement Preliminary announcements

12 The ASB published the ASB Statement Preliminary announcements in 1998. At the time, issuers were mandated to issue a preliminary statement of the annual results (preliminary announcements). In 2007 the Listing Rules[6] were amended and now permit, but no longer require, the publication of preliminary announcements, although if an issuer elects to issue them certain content and audit requirements have to be met. Market practice in relation to preliminary announcements has developed and today the content of the announcements often exceed the legal minimum. The FRC therefore decided to review the ASB Statement Preliminary announcements.

13 The FRC considered the following options in relation to its guidance on preliminary announcements contained in the ASB Statement Preliminary announcements:

(a) do nothing;

(b) maintain and update the ASB Statement Preliminary announcements; or

(c) withdraw the ASB Statement Preliminary announcements.

14 The ASB Statement Preliminary announcements is based on the premise that the publication of preliminary announcements by issuers is mandatory. Because preliminary announcements are no longer mandated and the ASB Statement Preliminary announcements is outdated in that respect, the FRC does not consider that ‘do nothing’ is a viable option.

15 The FRC considered the option of updating the ASB Statement Preliminary announcements so that it reflects the revised legal requirements. However, there is some evidence to suggest that the ASB Statement Preliminary announcements is no longer used. Market practice is now determined by other means for example: the information published by peers or the demands from stakeholders. The FRC therefore

believes option (c) is the most effective solution and proposes to withdraw the ASB Statement Preliminary announcements.

Aspects of draft FRS 104 which augment relevant legislation and diverge from IAS 34

Aspects that augment relevant legislation

16 The reporting requirements of draft FRS 104 complement and are consistent with the half-yearly reporting requirements of the DTRs, although the reporting requirements of draft FRS 104 explicitly address the preparation of interim financial statements only, rather than the preparation of the whole half-yearly financial report.

17 In some aspects the reporting requirements of draft FRS 104 exceed those of the DTRs. The DTRs do not require issuers that do not prepare consolidated financial statements to produce a statement of cash flows or a statement of changes in equity, whilst this is a requirement of the proposed standard. Nevertheless, inclusion of a statement of cash flows and a statement of changes in equity is consistent with the recommendations contained in the ASB Statement Half-yearly reports and therefore draft FRS 104 does not impose a new reporting requirement in this regard.

Aspects that diverge from IAS 34

18 The FRC has used IAS 34 as the starting point for developing draft FRS 104, but believes that certain limited amendments, as explained in more detail in the Accounting Council's Advice to the FRC to issue FRED 56, should be made to adapt IAS 34 for use by entities that apply FRS 102 to their annual financial statements.

Cost benefit assessment

19 The FRC believes that draft FRS 104 is a cost-effective solution for interim financial reporting by entities that prepare the annual financial statements in accordance with UK and Irish GAAP. Based on a comparative analysis of the proposed requirements in draft FRS 104 and the ASB Statement Half-yearly reports, the FRC believes that draft FRS 104 is no more onerous to apply than the current reporting guidance.

20 Draft FRS 104 is a financial reporting standard, whilst the ASB Statement Half-yearly reports had the status of non-mandatory best practice guidance. The FRC believes that changing its interim reporting requirements from Guidance to a Standard will have no impact on the cost or efforts of applying it. The scope of entities that would apply draft FRS 104 is effectively unchanged from the ASB Statement Half-yearly reports.

21 Any change in financial reporting requirements will result in some transitional costs, as entities need to get familiar with the new reporting requirements. However, the FRC does not believe that the incremental costs will be significant as the reporting requirements of draft FRS 104 have been adapted for use by entities that apply FRS 102 in the annual financial statements and the proposed interim reporting requirements are in all material aspects consistent with those in the ASB Statement Half-yearly reports.

22 Entities that do not prepare interim financial reports are unaffected by this proposal.

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[0] References to the Disclosure and Transparency Rules applicable in the United Kingdom should be read to include references to the Transparency (Directive 2004/109/EC) Regulations 2007 applicable in the Republic of Ireland.

[0] This reference includes the UK Listing Authority Listing Rules applicable in the UK and the Irish Stock Exchange Listing Rules applicable in the Republic of Ireland.

23 The FRC believes that the proposed interim financial reporting requirements in draft FRS 104 will have a positive impact on financial reporting as they are based on an IFRS solution consistently with the UK and Irish annual financial reporting requirements, which in the view of the FRC will promote the publication of useful and understandable interim financial information.

24 The FRC believes that the withdrawal of the ASB Statement Preliminary announcements has no associated costs and considers the deregulatory effect to be positive.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

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125 London Wall
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Comments should be despatched so as to be received no later than 12 January 2015.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

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