STATEMENT

EXPOSURE DRAFT

STATEMENT 'HALF-YEARLY FINANCIAL REPORTS'

ACCOUNTING
STANDARDS
BOARD

For the convenience of respondents in compiling their responses, the text of the questions in the Invitation to Comment on which particular comments are invited (see page 11) can be downloaded (in Word format) from the 'Half-yearly Financial Reports Project' page in the Current Projects section of the ASB Website (www.frc.org.uk/asb).

For ease of handling, we prefer comments to be sent by email (in Word format) to

Half-yearlyreports@frc-asb.org.uk

Comments may also be sent in hard copy form to:

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Comments should be despatched to be received no later than 14 May 2007. All replies will be regarded as on the public record, unless confidentiality is requested by the commentator.

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PREFACE

Introduction

1 This Exposure Draft sets out for comment a draft Statement 'Half-Yearly Financial Reports', which is designed to provide guidance for any UK* entities that are required or voluntarily choose to prepare half-yearly financial reports, other than those required by the Disclosure and Transparency Rules (DTR)† of the Financial Services Authority (FSA) to apply International Accounting Standard (IAS) 34 'Interim Financial Reporting'. UK issuers not required to apply IAS 34 can satisfy the requirement in the DTR for the half-yearly financial statements by following the provisions of this [draft] Statement. As noted below, the DTR clarify that issuers can satisfy the requirement for half-yearly financial statements to give a true and fair view by a statement that they have been prepared in accordance with pronouncements by the Accounting Standards Board (ASB). The FSA has effectively mandated the use of this statement. The FSA rule is in all cases subject to the condition that the person making the 'true and fair' statement has reasonable grounds to be satisfied that the condensed‡ set of financial statements prepared in accordance with the applicable set of accounting standards is not misleading.

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* *The [draft] statement may also be applied by similar entities in the Republic of Ireland.*

† *In the UK the Disclosure and Transparency Rules are now issued by the Financial Services Authority in its capacity as UK Regulatory Authority. In the Republic of Ireland, the half-yearly reporting requirements of the Transparency Directive will be set out in secondary legislation and, upon enactment of the legislation, will replace section 6.9 ('Half-yearly reports') of the Irish Stock Exchange's Listing Rules.*

‡ *The Transparency Directive replaces the term 'summarised' with the term 'condensed'.*

Background

2 The ASB first issued a Statement relating to interim reports in September 1997. The Statement was developed following a recommendation by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) in 1992 that the ASB, in conjunction with the London Stock Exchange, should clarify the accounting principles to be adopted by companies when preparing interim reports. It also recommended that balance sheet information should be included as part of the interim report and suggested that the inclusion of cash flow information should also be considered*.

3 In response to the Cadbury initiative, the Financial Reporting Committee of the Institute of Chartered Accountants in England and Wales undertook a project focusing on the accounting aspects of Interim reports. The project focused on the measurement basis and extent of disclosure required in Interim reports. The Committee published a Consultative Paper 'Interim Financial Reporting' in 1993 which led to formal proposal being presented to the ASB. The 1997 Statement was developed from those proposals and presented its recommendations as best practice in the reporting of interim information.

4 At the time of the Statement, the then International Accounting Standards Committee (IASC) was developing a new International Accounting Standard (IAS) on recognising, measuring and reporting interim financial information. IASC's initial proposals, published in September 1996, and its subsequent Exposure Draft E57,

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* *Furthermore in the Republic of Ireland, the Report of the Financial Reporting Commission published in 1992 (the Ryan Report) also advocating half-yearly financial reporting and recommended that interim reports should include details of items of an exceptional nature such as capital profits or losses, depreciation and interest charges, and segment data, together with a balance sheet in sufficient detail for financial position to be assessed.*

issued in August 1997, were considered by the ASB during the preparation of its 1997 Statement.

Reasons for considering a review of the Statement

5 The main development since 1997 that has led the ASB to conclude that a review of the Statement is necessary is that, during 2006, the FSA* has consulted on UK implementation of the EU Transparency Directive (TD) (Directive 2004/109/EC). The TD is designed to enhance transparency on EU capital markets by requiring regulated market issuers to produce periodic financial reports and shareholders in such companies to disclose major holdings. The requirements of the TD have to be implemented by all Member States no later than 20 January 2007. In October 2006, the FSA published a policy statement 'PS 06/11 Implementation of the Transparency Directive – Feedback on CP06/4' setting out near-final rules of the implementation of the TD. These rules include provisions in respect of half-yearly financial reporting.

6 UK and ROI entities listed on a regulated market are required to prepare consolidated financial statements in accordance with European Union (EU) endorsed International Financial Reporting Standards (IFRS). UK and ROI listed entities preparing consolidated financial statements are required to prepare half-yearly reports in accordance with IAS 34. The FSA's Disclosure and Transparency Rules (DTR) also require half-yearly financial reports to be prepared in accordance with IAS 34. Other UK issuers have to apply UK Generally Accepted Accounting Practice (GAAP) to produce their half-yearly financial statements. Some respondents to CP06/4 highlighted the current uncertainty as to what constitutes 'UK GAAP' for entities not preparing half-yearly financial statements under IAS 34. The DTR refer to

* *In June 2000 the responsibilities of being the competent authority for listing passed from the London Stock Exchange to the UK Listing Authority (UKLA) of the Financial Services Authority (FSA).*

pronouncements on half-yearly financial reporting issued by the ASB. The decision to rename the [draft] Statement to 'Half-yearly Financial Reports' is in line with the wording of the DTR.

7 DTR 4.2.10 clarifies that the requirement to provide a true and fair view in half-yearly financial statements is satisfied by a statement that the condensed set of financial statements have been prepared in accordance with IAS 34, or (for UK issuers not using IFRS) pronouncements on half-yearly reporting issued by the ASB, or (for all other issuers not using IFRS) a national accounting standard relating to half-yearly reporting. The ASB has therefore decided to update its Statement, given that, for UK issuers not using IFRS, the FSA decision is effectively mandating its use. The FSA rule is in all cases subject to the condition that the person making the 'true and fair' statement has reasonable grounds to be satisfied that the condensed set of financial statements prepared in accordance with the applicable set of accounting standards is not misleading. The FSA has noted in PS06/11 that it is aware that this may dilute the true and fair concept but retention of this wording is unavoidable given that it is in the text of the TD.

8 Article 6 of the Directive requires issuers whose shares are admitted to trading on a regulated market to publish interim management statements for the first and third quarters of the year. The statement has to provide (a) an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position; and (b) a general description of the financial position and performance of the issuers. The FSA has simply 'copied-out' the TD's provisions on half-yearly management statements in the DTR and has not provided any additional guidance. The FSA's proposal not to provide any additional guidance was supported by respondents to the FSA's consultation. This [draft] statement is not intended to give guidance on the preparation of interim management statements.

9 The ASB gave consideration to the above matters and decided to revise its Statement on Interim Reports and rename it 'Half-Yearly Financial Reports' to reflect the requirements of the DTR.

Summary of proposed changes

10 The changes proposed in the [draft] Statement take account of changes which have been effected since the Statement on Interim Reports was issued in 1997, as outlined in paragraph 5 above. To this extent it was necessary to update the [draft] Statement to ensure that:

(a) it is consistent with all major aspects of IAS 34;

(b) it is consistent with the DTR; and

(c) it does not give rise to conflicting guidance.

11 In preparing this [draft] Statement, the ASB has sought to make the minimum number of changes necessary in light of the developments, as set out in paragraph 5, including changes in terminology. The ASB has adopted this approach in order to have revised guidance prepared in time for the first round of half-yearly financial reports that have to be prepared to meet the requirements of the TD and the DTR. The ASB is, however, minded to add a longer-term project on interim financial reporting to its work programme and would welcome the views of constituents on this suggestion.

12 The changes have:

- renamed the [draft] Statement, 'Half-Yearly Financial Reports';
- introduced a Summary and Objective paragraph to replace the previous Introduction;

- updated the wording of the standard to use language appropriate to IAS 34 and the DTR; and

- added an Appendix to reflect the current legal and regulatory framework.

INVITATION TO COMMENT

The Board would welcome comments on any aspect of the Exposure Draft. Respondents' views are especially sought on the matters set out below. It would be helpful if respondents could support comments with reasons and, where applicable, preferred alternatives.

1 Do you agree with the proposal to update the ASB's existing Statement and issue an amended Statement on Half-yearly Financial Reports? If not, why not?

2 Do you agree that changes in the [draft] Statement should be restricted to those made necessary by the developments outlined in paragraph 5 of the Preface? If you do not agree, what changes would you wish to see made to the guidance in the [draft] Statement?

3 The [draft] Statement is designed to provide guidance for UK and ROI issuers not using IFRS who are required to prepare half-yearly financial reports. Do you agree that the [draft] Statement will provide useful guidance, not only for issuers required to prepare half-yearly financial reports in line with FSA rule DTR 4.2 and the Irish legislative equivalent, but any other entities wishing voluntarily to prepare half-yearly financial reports?

4 The ASB is seeking views on whether the Board should initiate a longer-term project on interim financial reporting. Are you in favour of such a project?

5 The ASB has not sought to update the statement to include explicit guidance on accounting for pensions at the half year. The Board has not replicated the guidance in IAS 34 on this issue, as the Board considers the guidance there to be unclear. Should the Board consider issuing any guidance on pensions for half-yearly financial reports? If so, what should that guidance cover?

6 Are there any other areas on which you consider guidance is needed for half-yearly financial reports? If so, please explain, with reasons why such guidance would be useful.

[DRAFT] STATEMENT – 'HALF-YEARLY FINANCIAL REPORTS'

Summary

This [draft] Statement is designed to provide guidance for any UK* entities that are required or voluntarily choose to prepare half-yearly financial reports, other than those required by the Disclosure and Transparency Rules (DTR)† of the Financial Services Authority (FSA) to apply International Accounting Standard (IAS) 34 'Interim Financial Reporting'. It is intended to have persuasive rather than mandatory force. However, for UK issuers not required to apply IAS 34, the DTR make clear that the requirement for responsible persons to give an explicit statement that the condensed set of financial statements give a true and fair view can be satisfied by giving a statement that the condensed information has been prepared in accordance with pronouncements on interim reporting issued by the ASB. In effect this mandates such UK issuers to apply this [draft] Statement.

Objective

1 The objective of this [draft] Statement is to outline the basis of presentation for half-yearly financial reports and define the content of half-yearly financial reports. The [draft] Statement gives guidance on the content of half-yearly

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* *The [draft] statement may also be applied by similar entities in the Republic of Ireland.*

† *In the UK the Disclosure and Transparency Rules are now issued by the Financial Services Authority in its capacity as the UK Listing Authority. In the Republic of Ireland, the half-yearly reporting requirements of the Transparency Directive will be set out in secondary legislation and, upon enactment of the legislation, will replace section 6.9 ('Half-yearly reports') of the Irish Stock Exchange's Listing Rules. It is expected that the requirements in relation to half-yearly reports in the legislation implementing the Transparency Directive in the Republic of Ireland will be similar to those contained in the FSA's Disclosure and Transparency Rules.*

financial reports to assist shareholders to make a more informed assessment of the entity at a half-yearly stage.

Scope

2 This [draft] Statement sets out guidance that may be applied by any UK entities that are required or voluntarily choose to prepare half-yearly financial reports, other than those required by the DTR to apply IAS 34. For UK issuers not required to apply IAS 34, the DTR make clear that the requirement for responsible persons to give an explicit statement that the condensed set of financial statements give a true and fair view can be satisfied by giving a statement that the condensed information has been prepared in accordance with pronouncements on interim reporting issued by the ASB. This [draft] Statement sets out such a pronouncement.

Role of the half-yearly financial report

3 A condensed set of financial statements is a requirement of the Directive and DTR, mainly because the interval between annual reports is considered to be too long a period for users and specifically shareholders to be without financial information, particularly when developments are affecting trading conditions.

4 Half-yearly financial reports play an important role as a progress report in the continuing reporting process of the operating, financing and investing activities of a business. Like annual financial statements they fulfil a confirmatory and predictive function. Within the constraints of time and cost, half-yearly financial reports are designed to enable users to monitor the progress of a business from its financial position as stated in the last set of annual financial statements and to assess the impact of recent events on operating performance and financial position. Additionally, the law requires that a condensed set of financial statements provide a true and fair view.

Timescale

5 For information to be of value in updating users' knowledge of an entity it must be timely. The DTR require that companies make their half-yearly financial reports available within two months of the half-yearly period-end.

Basis of presentation

6 Half-yearly financial reports, like annual financial statements, are presented in respect of a distinct reporting period. A fair assessment of the progress of the business can be made only if the half-yearly accounts are prepared on a consistent and comparable basis taking one reporting period with another.

7 Traditionally, two rather different methods have been used in the preparation of half-yearly reports: the 'integral method' and the 'discrete method'.

8 The integral method views the half-yearly period as a part of the larger annual reporting cycle. Its function is predominantly to predict and explain the financial information for the full financial year. Items are therefore recognised in half-yearly periods on the basis of estimating the total annual revenue and expenses and allocating accordingly.

9 Under the discrete method, the half-yearly period is treated as an accounting period distinct from the annual cycle. Incomplete transactions are treated according to the same principles as are applied at the year-end. This has the advantage that the elements of financial statements are defined in the same way as for the annual financial statements.

10 The Board continues to endorse an approach whereby items of income and expense are measured and recognised on a basis consistent with that used in the preparation of annual financial statements (the discrete method). Certain items of

income and expenditure occur on an annual basis and these are considered in paragraphs 15-17 below.

Accounting policies

11 The DTR require that the accounting policies and presentation of figures in half-yearly financial reports are consistent with those in the annual financial statements. Accordingly, half-yearly financial reports should be prepared using the same measurement basis and adopting the same accounting principles and practices as are employed in the annual financial statements.

12 Half-yearly financial reports should include a statement that they are prepared on the basis of the accounting policies set out in the most recent set of annual financial statements. Half-yearly financial reports are often reviewed in conjunction with the previous year's financial statements and therefore their accounting policies need to be stated and explained only where they differ from those previously adopted.

Changes in accounting policy and prior period adjustments

13 When it is known at the time that half-yearly accounts are prepared that an accounting policy change (or a presentation change) will be made in the annual accounts (including voluntary changes in accounting policy, not resulting from a new or revised accounting standard, UITF abstract or a change in companies legislation), the change should be implemented in the half-yearly accounts rather than deferred to the year-end. This ensures that the half-yearly results are presented on the same basis as those for the full financial year. Where a known accounting policy change in the current year is not implemented in the half-yearly report an estimate of its effect should be shown; if that is not possible, a statement of explanation should be included.

14 Following a change in accounting policy, the amounts for the current and prior periods should be stated on the basis of

the new policies. The cumulative effect of the policy change on opening reserves (ie at the beginning of the financial year) should be disclosed at the foot of the statement of total recognised gains and losses of the period. Similar disclosures should be made in respect of other prior period adjustments arising from the discovery of fundamental errors. A description should be given to help users understand the nature of each change or adjustment.

Annually determined income and expenditure

15 Certain items of income and expenditure are determined on a formal basis once a year when the full financial statements are prepared; examples include bonuses, profit-sharing arrangements, volume discounts, sales commissions and rent based on income or sales criteria.

16 In each case it is necessary to determine whether an obligation to transfer economic benefits as a result of past transactions or events exists at the half-yearly period-end. Only if there is such an obligation (either contractual or constructive), should a provision be made at the period-end. An intention to transfer economic benefits is, by itself, not sufficient to recognise future costs and income in the half-yearly period.

17 For example, a genuinely discretionary one-off bonus given at the end of the year would be recognised only in the final interim accounting period. On the other hand, a profit-related bonus paid at the year-end, although non-contractual, would be recognised in an earlier interim period, on the basis of profits earned in that period, if past practice indicated that there was a constructive obligation. Similarly, a contractual supplier's volume discount, based on an annual target for the year, would also be recognised in an earlier interim period on the basis of a proportion of the expected annual discount.

Seasonal revenues

18 A business is seasonal where there is a substantial and recurring variation between the levels of profit in the half-yearly period and the remainder of the year. Fluctuating revenues of seasonal businesses are generally understood by the marketplace and it is appropriate to report them as they arise.

Taxation

19 The half-yearly tax charge should be based on an estimate of the likely effective tax rate for the year, expressed as a percentage of the expected results for the year and then applied to the half-yearly profit or loss arising. This approach results in taxation, including permanent and timing tax differences, being recognised rateably over the year as a whole in common with other contractual, annually determined items of income and expenditure as noted in paragraphs 15 to 17.

20 To the extent practicable and where more meaningful, a separate estimated effective annual tax rate should be determined for each material tax jurisdiction and applied individually to the half-yearly period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of income (such as capital gains tax), to the extent practicable, a separate rate should be applied to each individual category of half-yearly period pre-tax income, where material. In many cases a weighted average of rates across jurisdictions or across categories of income may be a reasonable approximation of the effect of using more specific rates.

21 Exceptional items are, by definition, material to the accounts and can often distort the overall tax charge if the tax rate applying to the exceptional item differs significantly from the likely effective tax rate. Therefore, where material, the tax effect of exceptional items should not be included in the likely effective annual tax rate but should be recognised

in the same period(s) as the relevant exceptional item. In such circumstances, the estimated annual effective tax rate (excluding exceptional items) will be applied to the half-yearly profits or losses before exceptional items.

22 The half-yearly financial report should give a brief explanation of the basis of the effective tax rate.

23 The general approach of making an estimate of the effective tax rate for the year should be employed even where, for example, a company's result in the first half-year is expected to be completely offset by its result in the second half-year. Even if the overall result is break-even, there will still be an effective tax rate (say 30 per cent). The full year's tax of nil is, conceptually, 30 per cent of no profit, rather than zero per cent. Thus that tax rate is applied to both profits and losses. However, a tax credit should be booked (and a deferred tax asset recognised) for half-yearly tax losses only if there is reasonable assurance that it will reverse in the foreseeable future (in accordance with Financial Reporting Standard (FRS) 19 'Deferred tax').

24 In determining the amount of tax losses to recognise in the half-yearly period, an estimate should be made of the utilisation expected over the whole tax year. The amount recognised in the half-yearly period should be proportional to the profit before tax of the half-yearly period and the estimated annual profit before tax.

Foreign exchange

25 The profit and loss account of a foreign entity accounted for under the net investment or closing rate method should be translated either at the average rate for the half-yearly period or at the closing rate at the end of that period, whichever is consistent with the company's accounting policy.

Valuation

26 Whether value changes of assets held at a valuation are recognised depends upon the nature of the assets and the difficulty of obtaining valuations. Revaluation would be necessary, for example, in respect of quoted stocks carried at market value, but not, as a matter of course, in respect of properties, where revaluations on the basis used in the previous annual financial statements would suffice, subject to the following:

(a) the most recent valuations available should be used;

(b) where valuations have been brought forward, without amendment from the previous annual accounts, a statement to that effect should be given; and

(c) where significant, the directors are encouraged to comment on price movements since the last valuation.

27 Additionally with regards to valuation, any impairment losses on acquired goodwill should be recognised if the acquired goodwill is deemed to have been impaired and the provision for those losses should not be reversed in a subsequent period, regardless of circumstances. The same should apply to provisions relating to investments in available-for-sale equity instruments and unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured.

Materiality

28 Consistently with the discrete approach, materiality should be assessed with reference to the results and financial position for the half-yearly period rather than in relation to expected results and financial position for the full year.

Content of the half-yearly financial report

29 Half-yearly financial reports provide an update on the latest set of annual financial statements and, accordingly, should focus on new activities, events and circumstances.

30 An informed assessment of financial position and performance does not focus solely on the profit (or loss) for the period, but requires comparison of information from the profit and loss account, statement of total recognised gains and losses, balance sheet and cash flow statement. Whilst not all information in the four primary statements is critical to such an analysis, it is useful to present the significant information within the context of the four statements, along with an interim management report that highlights and explains these elements in the context of events since the previous annual report and accounts.

31 It is therefore recommended that a half-yearly financial report should include a half-yearly management report, condensed profit and loss account, statement of total recognised gains and losses, condensed balance sheet and condensed cash flow statement.

32 Significant events and trends mentioned in the content of the half-yearly financial report should be supported by the underlying figures given either on the face of the primary statements or by way of note. Sufficient supplementary information should be given, where appropriate to the nature of the company's business and as the directors see fit, to permit an understanding of the significant items contained within the primary statements.

33 The information should be presented in a concise manner, should be consistent and comparable with that previously reported (the annual report) and should facilitate comparison between like companies.

Half-yearly Management Report

34 The DTR require half-yearly financial reports to include a half-yearly management report which must include at least an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year. Any additional material to be contained in the report, as outlined in the paragraphs below, should be considered in the context of what is needed to meet the requirements of the DTR. The half-yearly management report is not intended to be as comprehensive as an operating and financial review (OFR), but should include any significant information enabling investors to make an informed assessment of the trend of the group's activities and profit or loss. Half-yearly management reports should focus attention on areas of change since the last set of annual financial statements. A balanced narrative commentary that explains the reasons for significant movements in key indicators and indicates perceived trends within the business is an important feature of a half-yearly financial report, providing management with the opportunity to report on its stewardship of the business as a whole.

35 Attention should be drawn to events and changes within the period that are likely to have a significant effect on the succeeding period despite having had relatively little impact in the current period.

36 The commentary should describe the nature of any seasonal activity and, together with other disclosures, provide adequate information for the performance of the business and its financial position at the end of the period to be understood in the context of the annual cycle. The principles by which seasonal results are reflected in the half-yearly report should be stated, particularly where there are any expected changes in the effects of seasonality.

37 As well as referring to trading performance, the commentary should draw attention to the condensed balance sheet and cash flow statement. It should also highlight and explain significant changes since the last annual financial statements, particularly regarding movements in working capital, liquidity and net debt that are likely to be of value to users in their assessment of the business.

38 The commentary should explain any other matter that management thinks would help users to understand the report. This would include for example, where relevant:

- acquisitions and disposals of major fixed assets or investments during the period covered by the report;
- changes in estimates for liabilities, commitments and off balance sheet financial instruments since the previous year-end;
- material changes in capital structure or financing; and
- events arising after the end of the period covered by the report.

Profit and loss account

39 A half-yearly financial report should include a condensed profit and loss account that should show each of the headings and subtotals included in the most recent annual financial statements. Additional line items should be included if, as a result of their omission, the half-yearly financial statements would give a misleading view of the profit or loss of the entity.

Acquisitions and discontinued operations

40 Turnover and operating profit of acquisitions and discontinued operations (as defined in FRS 3 'Reporting Financial Performance') should be disclosed separately on

the face of the profit and loss account in the period in accordance with FRS 3. For this purpose, operations are regarded as discontinued when the sale or termination is completed either in the half-yearly period or before the earlier of two months after the end of the half-yearly period and the date on which the half-yearly financial report is approved.

41 It may be appropriate to disclose separately, either by way of note or in the half-yearly management report, the results of operations which, although not discontinued, are in the process of discontinuing or are expected to be classified as discontinued in the current year's financial statements. Where it is not practicable to determine the post-acquisition results of an operation to the end of the half-yearly period, an indication should be given of the contribution of the acquisition to the turnover and operating profit of the continuing operations.

Segment information

42 The basis of presentation of segment information in the half-yearly financial report should, where possible, be consistent with that to be used at the current year-end in order to assist users in making predictions that will be readily comparable with the annual results. Any significant differences in presentation from that used in the latest annual financial statements should be disclosed and explained.

Exceptional items

43 By definition, exceptional items are unusual in nature and significant in amount. They rarely extend over more than one year and it is not generally appropriate to allocate their effect to different parts of the reporting period. They should be recognised and disclosed in the profit and loss account of the half-yearly period in which they occur. Certain exceptional items should be shown separately after

operating profit and before interest as required by paragraph 20 of FRS 3 'Reporting Financial Performance'.

44 Other exceptional items should be charged or credited in arriving at the profit or loss on ordinary activities by inclusion under the statutory headings to which they relate. In addition, they should be disclosed and described by way of a note.

45 The tax effects of exceptional items disclosed on the face of the profit and loss account, in accordance with paragraph 44 above, should be separately disclosed in the profit and loss account or a related note.

Earnings per share

46 The DTR require listed companies to disclose earnings per share expressed as pence per share. Basic earnings per share should be derived from the results for the interim period and calculated and disclosed in the same manner as at the year-end. Companies that choose to present in their annual financial statements additional amounts per share based on another level of earnings should present them also in their half-yearly accounts, calculated and disclosed in accordance with FRS 3 'Reporting Financial Performance'.

Statement of total recognised gains and losses

47 A statement of total recognised gains and losses should be included where gains or losses, other than profit or loss for the half-yearly period, as reported in the profit and loss account, are recognised in the period.

48 A reconciliation of movements in shareholders' funds is required only where movements other than those in the statement of total recognised gains and losses need to be explained.

Balance sheet

49 A condensed balance sheet (together with corresponding amounts) should show each of the headings and subtotals used in the balance sheet included in the most recent annual financial statements. Additional line items must be included if, as a result of their omission, the half-yearly financial statements would give a misleading view of the assets, liabilities and financial position of the entity.

Cash flow statement

50 Information on the amounts and sources of cash flows provides an additional perspective to the performance of a company through the half-yearly period. Total amounts for the categories of cash flows specified by FRS 1 (Revised 1996) 'Cash Flow Statements' should be presented as follows:

- Net cash inflow/outflow from operating activities
- Returns on investments and servicing of finance
- Taxation
- Capital expenditure and financial investment
- Acquisitions and disposals
- Equity dividends paid
- Management of liquid resources
- Financing
- Increase/decrease in cash.

51 A reconciliation of operating profit to operating cash flow should be given in sufficient detail for users to appreciate its chief components. A reconciliation should also be given of

the movement of cash in the period to the movement in net debt, as required by FRS 1 'Cash flow statements' (Revised 1996), including the effect of movements on short-term and long-term borrowings, cash and other components of net debt, unless disclosed elsewhere.

Corresponding Amounts

52 Corresponding Amounts for the condensed profit and loss account, the statement of total recognised gains and losses and condensed cash flow statement should be presented for the corresponding half-yearly period and the previous full financial year. This provides a meaningful view of performance to date, particularly where the business is seasonal. Users may then compare figures on a year-on-year basis, or use them in the evaluation of trends and estimations of annual results.

53 Balance sheet information is included in half-yearly financial reports to highlight changes in key indicators of financial performance in the context of the entity's operating environment since the entity's last accounting year-end. The critical comparative figures are, therefore, those from the last annual financial statements, which may be accompanied by those from the previous corresponding half-yearly period to highlight the effect of seasonality.

Other disclosures

54 Subject to the limited exceptions noted in this Statement, disclosures demanded by Financial Reporting Standards and Statements of Standard Accounting Practice are not generally required in the presentation of half-yearly reports.

55 There are, however, certain disclosures specific to half-yearly reports that are helpful to users in assessing the relevance and reliability with which the reports might be used. They are:

- the period covered by the report;

- the date on which it is approved by the board of directors; and
- the extent to which the information it contains has been audited or reviewed.

APPENDIX A – THE LEGAL AND REGULATORY FRAMEWORK

Transparency Directive

A1. The Transparency Directive (TD) (2004/109/EC) was published in the Official Journal in December 2004. The TD is designed to enhance transparency on EU capital markets by requiring regulated market issuers to produce periodic financial reports and shareholders in such companies to disclose major holdings. The Directive is a minimum harmonisation Directive which allows the home Member State of regulated market issuers to impose more stringent requirements than those set out in the Directive whilst restricting the host Member State to the minimum TD requirements. The Transparency Directive has to be implemented by all Member States no later than 20 January 2007.

A2. The TD introduces (in Article 5) more comprehensive requirements for half-yearly financial reports for regulated markets issuers, comprising a condensed set of financial statements prepared in accordance with the applicable accounting standards, a half-yearly management report and an appropriate statement of assurance from persons responsible in the issuer.

A3. Where an issuer is required to produce consolidated accounts, the condensed set of financial statements must be prepared in line with Regulation No 1606/2002 (on the application of International Accounting Standards). Where the issuer is not required to prepare consolidated accounts, the condensed financial statements must at least include a condensed balance sheet, and a condensed profit and loss account, prepared in line with the same principles applied to the annual financial accounts. In practice this requires publicly quoted entities using International Financial Reporting Standards (IFRS) as endorsed by the European Commission for their annual accounts (this is the great majority of UK public quoted entities), to produce half-yearly reports in accordance with IAS 34 'Interim Financial Reporting'. Those entities that continue to apply UK Financial Reporting Standards will be required to produce half-yearly reports in accordance with this Reporting Statement.

A4. Article 5 of the Directive contains a requirement for each person making a responsibility statement to state that to the best of his or her knowledge the condensed set of financial statements 'give a true and fair view'.

A5. Article 5(6) notes that the Commission will adopt implementing measures (so-called 'Level 2' measures, see below) in order to take account of technical developments on financial markets and to ensure the uniform application of Article 5. This includes a commitment on the Commission to specify the minimum content of the condensed balance sheet and profit and loss accounts and explanatory notes on these accounts, where they are not prepared in accordance with IAS 34.

A6. Article 6 of the Directive requires issuers whose shares are admitted to trading on a regulated market to publish interim management statements for the first and third quarters of the year. The statement has to provide (a) an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position; and (b) a general description of the financial position and performance of the issuers.

Level 2 Measures

A7. At the time of writing, the Level 2 measures have still to be finalised by the Commission. Article 3.2 of the draft implementing measures propose that the condensed balance sheet and the condensed profit and loss account shall show each of the headings and subtotals included in the most recent annual financial statements of the issuer. Additional line items shall be included if, as a result of their omission, the half-yearly financial statements would not give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer.

A8. In addition, the following comparative information shall be included:

(a) balance sheet at the end of the first six months of the current financial year and comparative balance sheet as at the end of the immediate preceding financial year; and

(b) profit and loss account cumulatively for the first six months of the current financial year with comparative information for the comparable period for the preceding financial year.

A9. The explanatory notes shall include sufficient information to ensure the comparability of the condensed half-yearly financial statements with the annual financial statements.

UK Implementation

A10. The Financial Services Authority (FSA) is responsible for the implementation in the UK of the TD. The FSA has implemented the TD in full and has made no amendments to the provisions on half-yearly reports.

A11. On 27 October 2006 the FSA published a policy statement *PS01/11 Implementation of the Transparency Directive – Feedback on CP06/4* setting out near-final rules for UK implementation. The rules issued in October 2006 were referred to as 'near' final as they cannot be finalised until: (a) the 'Level 2 measures' are finalised by the European Commission; and (b) the Companies Bill from which the FSA is being granted statutory powers to make new rules has received Royal Assent (which was given on 8 November to what is now the Companies Act 2006).

RoI Implementation

A12. In the Republic of Ireland the Investment Funds Companies and Miscellaneous Provisions Act 2006 provides for, *inter alia*, the implementation of certain aspects of the TD. The remainder will be transposed by means of secondary legislation. It is expected that these requirements will, upon enactment of the legislation, supersede section 6.9 ('Half-yearly reports') of the Irish Stock Exchange's Listing Rules.

UK Listing Rules

A13. On 1 June 2000 the responsibilities of being the competent authority for listing passed from the London Stock Exchange to the UK Listing Authority (UKLA) of the Financial Services Authority (FSA). The FSA's Listing Rules (currently section 9.9) require listed companies to prepare a report, on a group basis where relevant, on its activities and profit and loss for the first six months of the financial year.

A14. The Listing Rules require that the accounting policies and presentation applied to half-yearly figures must be consistent with those applied in the latest published annual accounts except where:

(1) the accounting policies and presentation are to be changed in the subsequent annual financial statements, in which case the new accounting policies should be followed, and the changes and the reasons for the changes should be disclosed in the half-yearly report; or

(2) the FSA otherwise agrees.

A15. The Listing Rules also specify the contents of the half-yearly report, as covering:

(1) a balance sheet;

(2) a cash flow statement; and

(3) an income statement (together with the information required to be included.

ROI Listing Rules

A16. On 1 July 2005, the Irish Stock Exchange (ISE) ceased to use the UKLA Listing Rules as its base rule book and the ISE Listing Rules came into force. For issuers of equity securities, the ISE continues to maintain parity of listing standards with the FSA. Prior to implementation of the Transparency Directive in Ireland, listed companies produced half-yearly reports in accordance with the Listing Rules and in accordance with IAS 34 'Interim Financial Reporting'.

The Disclosure and Transparency Rules

A17. The Disclosure and Transparency Rules (DTR) are the rules which have been developed by the FSA for the UK implementation of the TD*. The rule which applies to half-yearly reporting is DTR 4.2.

A18. This rule requires that the half-yearly financial report must include:

(1) a condensed set of financial statements;

(2) a half-yearly management report; and

(3) responsibility statements.

A19. If an issuer is required to prepare consolidated accounts, the condensed set of financial statements must be prepared in accordance with IAS 34 'Interim Financial Reporting'.

* *There is no DTR equivalent in the ROI as the requirements of the Transparency Directive will be set out in legislation.*

Where issuers are not required to prepare consolidated accounts, the condensed set of financial statements must contain, as a minimum, the following:

(a) a condensed balance sheet;

(b) a condensed profit and loss account; and

(c) explanatory notes on those accounts.

A20. The DTR 'copy out' the requirements of the Level 2 measures, summarised in paragraphs A7 to A9 above. They also replicate the Listing Rules provision outlined in paragraph A13 above.

A21. The half-yearly management report must include at least:

(1) an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; and

(2) a description of the principal risks and uncertainties for the remaining six months of the financial year.

APPENDIX B – COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

B1. Although the ASB's [draft] Statement is drafted in the context of half-yearly financial reporting, whereas IAS 34 'Interim Financial Reporting' covers aspects relating to quarterly reporting in more detail, the key elements of the two sets of pronouncements are consistent in all material respects.

B2. Like the ASB's [draft] Statement, IAS 34 'Interim Financial Reporting' states that the same accounting recognition and measurement principles should be applied in the half-yearly report as are applied in the annual financial statements. IAS 34 also states that measurements for half-yearly reporting purposes should be made on a year-to-date basis, which ensures that an entity's frequency of reporting (annual, half-yearly, or quarterly) does not affect the measurement of its annual results. However, as a consequence, amounts reported in prior half-yearly periods of the current financial year may need to be remeasured at a later date, as new information becomes available. IAS 34 requires significant remeasurements of previously reported half-yearly data to be disclosed in the half-yearly report, or, if there is no separate half-yearly report for the final half-yearly period of the year, in a note to the annual financial statements.

B3. On 20 July 2006 the IFRIC issued an Interpretation – IFRIC 10 *Interim Financial Reporting and Impairment*. The Interpretation addresses the apparent conflict between the requirements of IAS 34 *Interim Financial Reporting* and those on the recognition and reversal in financial statements of impairment losses on goodwill (in IAS 36 *Impairment of Assets*) and investments in equity instruments and in financial assets carried at cost (in IAS 39 *Financial Instruments: Recognition and Measurement*).

B4. IFRIC 10 states that any such impairment losses recognised in an interim financial statement must not be reversed in subsequent interim or annual financial statements. The [draft] Statement includes a similar provision.

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