



Financial Reporting Council

March 2015

Impact Assessment and Feedback Statement

FRS 104

Interim Financial Reporting

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FRS 104

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Impact Assessment

Introduction

- 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 The FRC issues FRS 104 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.
 - (b) Withdraw the Statement *Preliminary announcements* issued by the ASB in 1998 (ASB Statement Preliminary announcements).
- 4 This Impact Assessment addresses the following:
 - (a) the rationale for FRS 104;
 - (b) aspects of FRS 104 which augment relevant legislation and diverge from IAS 34; and
 - (c) an assessment of the cost and benefits of introducing FRS 104.

Rationale for 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. 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 at an interim date.

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) make 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)¹ 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 there is still a need for an interim reporting framework that entities not using EU-adopted IFRS can apply. 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 were amended or replaced by FRS 102. Although the key elements of the ASB Statement Half-yearly reports are in all material respects consistent with IAS 34, 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 interim financial reports. The FRC therefore believes option (d) is the most effective solution. Accordingly, FRS 104 is based on interim reporting requirements of 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 listed entities were mandated to issue a preliminary statement of the annual results (preliminary announcement). In 2007 the Listing Rules² were amended and now permit, but no longer require, the publication of preliminary announcements, although if a listed entity 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 exceeds the legal minimum requirements. 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 is mandatory. As preliminary announcements are no longer mandated and the ASB Statement Preliminary announcements is outdated in that respect, the FRC does not consider 'do nothing' to be a viable option.

¹ 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, including any subsequent amendments thereto applicable in the Republic of Ireland.

² 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.

- 15 The FRC considered the option of updating the ASB Statement Preliminary announcements so that it reflects the revised regulatory requirements. However, market practice has developed such that the content of preliminary announcements commonly goes beyond the regulatory minimum.
- 16 The FRC therefore withdraws the ASB Statement Preliminary announcements (option (c)), but will, as part of a future project, evaluate whether reporting guidance on certain aspects of preliminary announcements would be useful.

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

Aspects that augment relevant legislation

- 17 The reporting requirements of FRS 104 complement and are consistent with the half-yearly reporting requirements of the DTRs, although the reporting requirements of FRS 104 explicitly address the preparation of interim financial statements only, rather than the preparation of the whole half-yearly financial report.
- 18 In some aspects the reporting requirements of FRS 104 exceed those of the DTRs. The DTRs do not require entities 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 FRS 104. 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 FRS 104 does not impose a new reporting requirement in this regard.

Aspects that diverge from IAS 34

- 19 The FRC has used IAS 34 as the starting point for developing FRS 104, but believes that certain limited amendments, as explained in more detail in the Accounting Council's Advice to the FRC to issue FRS 104³, are necessary to adapt IAS 34 for use by entities that apply FRS 102 to their annual financial statements.

Cost benefit assessment

- 20 The FRC believes that 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 requirements in FRS 104 and the ASB Statement Half-yearly reports, the FRC believes that FRS 104 is no more onerous to apply than the current reporting guidance.
- 21 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 will apply FRS 104 is effectively unchanged from the ASB Statement Half-yearly reports.
- 22 Any change in financial reporting requirements will result in some transitional costs, as entities need to familiarise themselves with the new reporting requirements. However, the FRC does not believe that the incremental costs will be significant as the reporting requirements of FRS 104 have been adapted for use by entities that apply FRS 102 in the annual financial statements and the interim reporting requirements of FRS 104 are in all material aspects consistent with those in the ASB Statement Half-yearly reports.

³ The Accounting Council's Advice to the FRC to issue FRS 104 is included in FRS 104 issued in March 2015.

- 23 Entities that do not prepare interim financial reports are unaffected by this proposal.
- 24 The FRC believes that the interim financial reporting requirements in FRS 104 will have a positive impact on financial reporting as they are based on an IFRS solution consistent 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.
- 25 The FRC believes that the withdrawal of the ASB Statement Preliminary announcements has no associated costs.

Feedback Statement

- 1 The Financial Reporting Council (FRC) issued FRED 56 *Draft FRS 104 Interim Financial Reporting* in November 2014. The comment period on FRED 56 closed on 12 January 2015. The purpose of this Feedback Statement is to summarise the main comments received to the consultation. The FRC received 14 comment letters and three informal responses to FRED 56. All formal responses have been posted on the FRC website. The table below analyses the respondents by category.

Table 1: Respondents by category

	No of respondents
Accountancy firms	7
Accounting bodies	5
Representative bodies of preparers	3
Preparers/users	2
	<hr/>
	17
	<hr/> <hr/>

- 2 FRED 56 posed five questions, and the feedback and FRC response to it are summarised below.
- 3 In summary, respondents were supportive of the proposals to withdraw the Statement *Half-yearly financial reports* (ASB Statement Half-yearly reports) issued by the Accounting Standards Board (ASB) and to replace it with FRS 104, a standard based on interim reporting requirements in IAS 34 *Interim Financial Reporting*. Nevertheless, respondents made a number of recommendations for improvement of FRS 104 *Interim Financial Reporting*.
- 4 A majority of respondents agreed with the proposal to withdraw the Statement *Preliminary announcements* issued by the ASB (ASB Statement Preliminary announcements).

FRC response

- 5 Based on the overwhelming support for the proposal to develop the revised UK and Irish interim reporting requirements from the equivalent international requirements, FRS 104 was finalised on that basis. The originally proposed requirements were amended where respondents requested changes, based on a careful assessment of the merits of each suggestion.
- 6 The FRC decided to withdraw the ASB Statement Preliminary announcements, taking into account that a majority of respondents were supportive of this proposal. However, the FRC will, as part of a future project, evaluate whether reporting guidance on certain aspects of preliminary announcements would be useful.

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?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	13
Disagreed	1
No comment	3
	<hr/>
	17
	<hr/> <hr/>

- 7 The overwhelming majority of respondents agreed with the proposal to withdraw the ASB Statement *Preliminary announcements*. Some respondents commented that the requirements in the Listing Rules and guidance issued by the UK Listing Authority in respect of such announcements are sufficient for preparers. The respondent who disagreed with the proposal was of the view that the FRC should update its guidance.

FRC response

- 8 As proposed in FRED 56, the FRC has decided to withdraw the ASB Statement *Preliminary announcements*.
- 9 The main purpose of this consultation is to issue updated interim reporting guidance that is consistent with the revised UK and Irish annual reporting requirements that came into effect on 1 January 2015. In the process, the FRC also sought views on the withdrawal of existing guidance on preliminary announcements that is clearly out of date. The FRC will take the feedback about the continuous need for guidance on preliminary announcements into account when it considers and develops its future work plan.

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.

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	14
No comment	3
	<hr/> <hr/> 17

- 10 All respondents that commented on this question agreed with the proposal to replace the ASB Statement Half-yearly reports. Some expressed their explicit support for the proposal to use IAS 34 as the basis for FRS 104, as this is consistent with the framework used to develop the revised UK and Irish annual reporting requirements.
- 11 Three respondents suggested that the revised interim reporting requirements should be reissued in the form of guidance, instead of a standard.

FRC response

- 12 Considering the overwhelming support for the proposal to develop the revised interim reporting requirements from the equivalent international reporting requirements, FRS 104 was finalised on that basis.
- 13 The decision to issue the new interim reporting requirements in a standard, rather than as guidance, is based on the FRC's *Principles for the development of Codes, Standards and Guidance* which is available on the FRC's website¹. As set out in the Impact Assessment, the scope of FRS 104 is unchanged compared to the scope of the guidance issued in the ASB Statement Half-yearly reports.

¹ <https://frc.org.uk/FRC-Documents/FRC/About-the-FRC/Principles-for-the-development-of-Codes.pdf>

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.

Table 4: Respondents' views on Question 3

	No. of respondents
Agreed	3
Agreed, but with reservations	13
No comment	1
	<hr/>
	17
	<hr/>

- 14 Respondents generally agreed with the changes, although they made recommendations about how the interim reporting requirements could be improved. For example, a number of respondents requested that the FRC should consider the inclusion of the Appendices to IAS 34 in FRS 104, as they believe they will be useful for preparers.
- 15 A few respondents commented on the disclosure requirements relating to fair values. One respondent asked for the disclosure requirements on fair value measurements to be deleted, other respondents believed all fair value disclosures in IAS 34 should be included in FRS 104, even though the same disclosures are not required in the annual financial statements under FRS 102.

FRC response

- 16 All recommendations made by respondents have been carefully considered. The FRC also sought the advice from the UK GAAP Technical Advisory Group and the Accounting Council on how the key issues could be addressed. On that basis a number of changes to the original proposal were made. For further detail please refer to the Accounting Council's Advice to the FRC to issue FRS 104².

² The Accounting Council's Advice to the FRC to issue FRS 104 is included in FRS 104 issued in March 2015.

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.

Table 5: Respondents' views on Question 4

	No. of respondents
Agreed	13
Disagreed	1
No comment	3
	<hr/>
	17
	<hr/>

- 17 The vast majority of respondents agreed with the proposal. However, a few respondents made recommendations for changes to the disclosure requirements applicable to entities that apply FRS 101. The respondent who disagreed with the proposal preferred an approach under which entities reporting in accordance with FRS 101 apply IAS 34 with specified disclosure exemptions.

FRC response

- 18 The number of entities that apply FRS 101 and produce interim financial statements is very small. It would therefore be disproportionate to introduce a different set of interim reporting requirements just for these entities. Based on the support for the proposals from a majority of respondents, the FRC believes the requirements in FRS 104 are suitable for these entities.
- 19 Some of the disclosure requirements were amended in response to the recommendations made by respondents.

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.

Table 6: Respondents' views on Question 5

	No. of respondents
Agreed	14
No comment	3
	<hr/> <hr/> 17

- 20 The respondents who commented on this question generally agreed that the preparation of interim financial reports in accordance with FRS 104 will result in useful information. A number of respondents qualified their support with a reference to their suggested improvements to FRS 104.
- 21 Two respondents suggested that the FRC should issue additional guidance for interim management reports. Two other respondents suggested that adoption of FRS 104 for interim periods beginning before 1 January 2015 should be permitted.

FRC response

- 22 The FRC considered all representations made by respondents assessing the merits of each suggestion for improvement of FRS 104.
- 23 The FRC decided that FRS 104 should not include explicit requirements concerning the interim management report. In the view of the FRC entities reporting under FRS 104 should not be subject to greater reporting requirements than those applying IAS 34 to prepare interim financial reports. The feedback that additional guidance on interim management reports could be useful for all entities preparing interim financial reports will be taken into consideration when the FRC develops its future work plan.
- 24 The final requirements in FRS 104 have been amended to permit the adoption of the standard for interim periods beginning before 1 January 2015.



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