In brief
A look at current financial reporting issues

1 June 2018

In Brief INT2018-11

Disclosures required in interim financial statements on the initial adoption of IFRS 9

At a glance

IFRS 9, the new standard on financial instruments, is required to be applied for annual reporting periods beginning on or after 1 January 2018. Many entities will be required to issue interim financial statements under IAS 34, 'Interim Financial Reporting', before they issue their first annual financial statements applying IFRS 9.

Regulators, investors and other stakeholders might focus on disclosures related to the adoption of IFRS 9.

What is the issue?

What disclosures are required in interim financial statements in the year in which IFRS 9 is adopted?

Unlike IFRS 15 (the new revenue standard), IFRS 9 made no consequential amendments to IAS 34 to bring in specific new interim disclosure requirements. So the key requirement for interim reports is found in paragraph 16(a) of IAS 34, which states that an entity should provide *"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"* (emphasis added). Paragraph 6 of IAS 34 also states that the interim financial report is intended to provide an update on the latest complete set of annual financial statements and, accordingly, it focuses on new activities, events and circumstances.

What is the impact and for whom?

The extent of the disclosures will depend on an entity's circumstances. Entities apply judgement to determine the extent of the disclosure, taking into consideration, for example:

- the requirements or expectations of local regulators: entities should consider any guidance issued by regulators that might encourage or require specific disclosures or information to be included in interim reports; some regulators might require a subset of the disclosures required in annual financial statements to be included in the interim report; and

- the significance of the changes: the extent of disclosures might vary depending on the effect on the financial statements of the initial adoption of IFRS 9; for instance, in the banking sector, some entities might choose to include more information on expected credit losses, due to the significance of the impact on their financial statements; disclosures might be less extensive where the impact is qualitatively or quantitatively lower.

The disclosures might include:

- a description of the nature and effect of the change resulting from the new accounting policies (this disclosure is required by paragraph 16A(a) of IAS 34), including the new accounting policies themselves;

- the key judgements made by management in applying IFRS 9 (such as those when applying the business model test for classification and measurement or assumptions made in incorporating forward-looking information into expected credit loss calculations);

- details of the impact on the amounts presented in the interim financial statements, including earnings per share and the opening balance of retained earnings;

- the disclosures in paragraphs 42L and 42P of IFRS 7 which set out some of the quantitative and qualitative disclosures which are required in the annual financial statements where IFRS 9 is applied for the first time; and

- disclosures specific to the entity – entities should consider whether the requirements in paragraph 28 of IAS 8, which will be applicable for the annual financial statements, could be used to explain the nature and effect of the change in accounting policy when IFRS 9 is first applied.

Entities should also consider whether any of the other detailed disclosures required by IFRS 7 in annual financial statements are useful to comply with the requirements of IAS 34, although such disclosures are not mandatory in interim reports.

In addition, appropriate disclosures should be given about other aspects not discussed above that are necessary for a user to understand the impacts at transition, the reasons for those impacts and the key judgements that will impact the financial statements going forward.

When does it apply?

IFRS 9 is applicable for annual reporting periods beginning on or after 1 January 2018. Any interim financial statements issued before the first annual financial statements applying IFRS 9 will need to consider the above guidance.