

Susanne Pust Shah  
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By email to: ukfrs@frc.org.uk

9 January 2015

Dear Ms Pust Shah

## **FRED 56: Draft FRS 104 Interim Financial Reporting**

Deloitte LLP is pleased to respond to FRED 56. We have set out our detailed responses to the consultation questions in the Appendix to this letter together with some additional drafting comments. Overall we support the proposals. Our key comments, which we expand on in the Appendix to this letter, are as follows:

- we agree that the ASB Statement on Preliminary Announcements is now of little practical use and can be withdrawn without replacement;
- we agree with the proposal to replace the ASB Statement: Half-yearly Financial Reports with a pronouncement based on IAS 34 but with necessary amendments to enable it to work within the context of UK accounting standards. However, we believe that the proposed draft FRS 104 deviates more than necessary from the text of IAS 34 and that greater consistency would be preferable; and
- we question whether it is appropriate to badge the document as a Financial Reporting Standard given the complications that will arise because it will not be an 'accounting standard' for legal purposes.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Ken Rigelsford (0207 007 0752 or [krigelsford@deloitte.co.uk](mailto:krigelsford@deloitte.co.uk)).



Yours sincerely

A handwritten signature in black ink, appearing to read "V. Poole".

Veronica Poole  
National Head of Accounting and Corporate Reporting  
Deloitte LLP

## Appendix

### Responses to detailed questions

**Question 1     Do you agree with the proposal to withdraw the Statement Preliminary announcements issued by the Accounting Standards Board (ASB) in 1998? If not, why not?**

Yes, we agree. The 1998 Statement had not been updated for the introduction of IFRSs in 2005 and the lack of an updated statement has not led to divergence in practice. UKLA Technical Note TN/502.1 *Preliminary Statement of Annual Results*<sup>1</sup> now provides guidance to issuers preparing a preliminary announcement.

**Question 2     Do you agree with the proposal to withdraw the Statement Half-yearly financial reports issued by the ASB in 2007 and replace it with interim financial reporting requirements based on IAS 34 Interim Financial Reporting as proposed in draft FRS 104 Interim Financial Reporting? If not, please give your reasons and propose an alternative approach.**

Yes, we agree. An up-to-date pronouncement will be helpful for those companies that are adopting FRS 102 for their annual financial statements and either choose to, or are obliged to, prepare interim reports.

We suggest that the FRC liaise with the Financial Conduct Authority to arrange for Disclosure and Transparency Rule DTR 4.2.10R(4)(b) to be updated. This rule currently refers to “pronouncements on interim reporting issued by the Accounting Standards Board” which should be updated to refer to those issued by the Financial Reporting Council.

**Question 3     Draft FRS 104 proposes amendments to the reporting requirements in IAS 34 in order to adapt them for use by entities that apply FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland to prepare the annual financial statements. The Accounting Council’s Advice to the FRC to issue FRED 56 highlights the key changes. Do you agree with the proposed amendments? If not, please give your reasons.**

We broadly agree with the proposed amendments, in particular where they are necessary amendments to enable the pronouncement to work within the context of UK accounting standards. However, we believe that the proposed draft FRS 104 deviates more than necessary from the text of IAS 34 and that greater consistency would be preferable. This would be helpful for those who are already familiar with the requirements of IAS 34 and also avoid potential debates about whether the omitted material results in substantive differences in the requirements.

In particular, we believe that Illustrative Examples A, B and C are helpful and should be retained with only necessary consequential amendments. This will also involve reinstating certain paragraphs that cross refer to them. Although the Illustrative Examples are guidance rather than mandatory requirements, they are helpful in understanding how to apply the underlying principles of IAS 34. For example, accounting for income tax in interim financial information is a frequent subject of confusion and difficulty. Failure to reproduce this material could cause diversity of practice, particularly as this is one area where there does appear to be a substantive difference from the guidance in the ASB Statement (on the tax treatment of exceptional items).

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<sup>1</sup> <http://www.fca.org.uk/your-fca/documents/ukla/technical-note-preliminary-statement-of-annual-results>

We also note that some requirements of IAS 34 which have at first sight been omitted have been substantively reproduced in a different paragraph of the proposed text. This again causes unnecessary divergence between the proposed FRS 104 and the underlying requirements of IAS 34 on which it is based.

**Question 4** There may be a small number of entities that are required to prepare interim financial reports and apply FRS 101 Reduced Disclosure Framework to prepare the annual financial statements. Paragraph 3A of draft FRS 104 requires that these entities should read references to FRS 102 in draft FRS 104 as the equivalent requirements in EU-adopted IFRS as amended by paragraph AG1 of FRS 101. Do you agree with this proposal? If you believe further changes are necessary to enable these entities to apply draft FRS 104 please state your recommendations and reasons for your proposal.

Yes. However, we note that the scope of the proposed FRS 104 is not restricted to entities that apply FRS 101 or FRS 102 and so the wording of paragraph 3A could be made more general to accommodate this.

**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.

Yes.

#### Other comments

1. We question whether it is appropriate to badge the document as a Financial Reporting Standard given the complications that will arise because it will not be an 'accounting standard' for legal purposes. We understand that the FRC proposes to amend the Foreword to Accounting Standards to explain that in future there will be two types of Financial Reporting Standard, those that are 'accounting standards' for legal purposes and those that are not. Each pronouncement will then indicate its status. This seems to introduce unnecessary complexity for no useful purpose. Given that the scope and status of the interim reporting pronouncement will be made clear within it, we believe that it would be preferable to badge the pronouncement as a Reporting Statement rather than a Financial Reporting Standard.
2. Proposed paragraph 8C exempts an entity from the requirement to present a statement of cash flows when it did not present one in its most recent annual financial statements. However, it would be more consistent with the underlying principle in paragraph 28 to base this on whether the entity will be required to present a statement of cash flows in its next annual financial statements. Also, on first time adoption of FRS 102, the most recent annual financial statements will have been under previous GAAP and the requirements for a statement of cash flows may have been different. This issue also affects the drafting of paragraph 9.
3. Paragraph 16B(b)(ii) requires a reconciliation of equity between the entity's old and new financial reporting framework at the end of the comparable year-to-date period of the immediately preceding financial year. However, in accordance with paragraph 20(a), the comparative balance sheet will be as at the end of the immediately preceding financial year. This is inconsistent and if a reconciliation of equity is to be required it would be better to align this with the requirement for a comparative balance sheet.

4. While we acknowledge the practical difficulties with the timing of publication of the final pronouncement, we believe that early adoption should be permitted once it has been published. This may be particularly helpful for entities preparing half-yearly reports to 31 March 2015 that intend to adopt FRS 102 in their annual reports for the year ended 30 September 2015.
5. It seems inconsistent that some unused paragraph numbers say "[Not used]" while others say "[Deleted]". The reason is that those marked "[Deleted]" are omitted from the current version of IAS 34 while those marked "[Not used]" have been removed by the FRC in developing the proposed FRS 104. If this distinction is retained in the final pronouncement, it would be helpful if the reason for the apparent inconsistency could be explained.
6. Paragraph A2.3 in Appendix II includes the words "or the undertaking included in the consolidation as a whole". We appreciate that these words are reproduced from DTR 4.2.10R but in the context of the applicability of the proposed UK pronouncement they might be better omitted because it will not be applied to consolidated financial statements.