Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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By e-mail and by post

6 April 2006

Mr. Allan Cook,
IFRIC Co-ordinator,
The International Financial Reporting Interpretations Committee,
International Accounting Standards Board,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

Dear Mr. Cook,

Comments on D18 *Interim Financial Reporting and Impairment*

The Hong Kong Institute of CPAs welcomes the opportunity to provide you with our comments on the Draft Interpretation D18 *Interim Financial Reporting and Impairment.*

We accept that the amendments to IAS 36 and IAS 39, which prohibit reversals of impairment losses in certain situations, have led to a need for clarification of the approach to be taken in the preparation of interim reports. However, we do not support the conclusion reached in D18 as we are of the view that the fundamental principle in IAS 34, that interim reports are prepared on a year-to-date (YTD) basis, whereby the frequency of an entity's reporting shall not affect the measurement of its annual results, should be adhered to. Further explanation of our view is as follows:

It seems clear from IAS 34.28-36, in particular IAS 34.29, 35 and 36 that the YTD principle is fundamental to IAS 34. Under this principle and as per this guidance, an entity that reports quarterly is not preparing 3 discrete quarterly report, plus a 4th discrete quarter, which is effectively included in a full year summation. Instead, an entity that reports quarterly is preparing interim reports for (i) the first 3 months, (ii) the first 6 months, and (iii) the first 9 months; and is then preparing financial statements for the full year, which are outside the scope of IAS 34 and unaffected by the frequency of the interim reporting. Under this approach, the report for e.g. the first 6 months of a financial year ending on a certain date (say 30 June 2005) should in principle be the same for any given entity, whether that entity reported first quarter interim results at 31 March 2005 or not.

It also seems evident that the YTD principle is fundamental to IAS 34 from IAS 34's minimum requirements for the primary statement comparatives, which would be, e.g. in a 9 month interim report as at 30 September 2005 as follows:

- The comparative amounts for the interim period balance sheet are in all cases the balance sheet at the previous year-end. That is, when preparing the first 9 months interim report at 30 September 2005, the comparatives for the balance sheet are as at 31 December 2005, irrespective of whether the entity reported as at 31 March 2005 and/or 30 June 2005 (IAS 34.20(a)).

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- Both the cash flow statement and changes in equity are done only for the cumulative YTD period that is for the first 9 months of this year, compared to the first 9 months of last year, irrespective of whether the entity reported as at 31 March 2005 or 30 June 2005 (IAS 34.20(c) and (d)).

- It is only in respect of the income statement that the current 3rd quarter is shown (and its comparative is the comparable 3rd quarter last year, not the 2nd quarter this year), and even in this case the income statement for the year to date is also shown (i.e. the first 9 months), together with the comparable first 9 months last year.

While we note from D18.3 and BC 5 that IFRIC has considered the YTD principle, we are concerned that insufficient weight has been given to it. In particular BC 4 gives a specific example where applying the requirement of D18 would be in direct contradiction to the YTD principle and the BC5 justifies the conclusions of D18 by describing the YTD principle as "a more general statement" of lesser importance that the requirement to follow same accounting policies as annual financial statements.

In our view, given the requirements in IAS 34.28 and the illustration of the application of those requirements in IAS 34.30(a), the only interpretation of the current IAS 34 that IFRIC can issue on this matter would be to reinforce the YTD principle. i.e. that impairments in a half-year interim report should be reported consistently on the basis of the accounting policies without any regard to whether an entity published an interim report after the first quarter. It follows that if, when applying the same accounting policies that would be applied to the annual report, the entity reaches the conclusion that no impairment loss would be recognised as a result of events during that interim 6 month period (as per the example in BC 4 of D18), then the cumulative YTD income statement should not include an impairment loss. If this is the case, and a first quarter has been reported which included an impairment loss then, as clearly stated in IAS 34.30(a), this YTD position is achieved by way of change is estimate reported in the 2nd quarter.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkicpa.org.hk.

Yours sincerely,

Patricia McBride

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