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August 2006 – IFRIC Special

Audit

IAS Plus.

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IFRIC 10 – Interim Financial Reporting and Impairment

On 20 July 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 10 **Interim Financial Reporting and Impairment**. The Interpretation addresses the interaction between the requirements of IAS 34 **Interim Financial Reporting** and the recognition of impairment losses on goodwill under IAS 36 **Impairment of Assets** and certain financial assets under IAS 39 **Financial Instruments: Recognition and Measurement**. The Interpretation concludes that where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements. The Interpretation is effective for annual periods beginning on or after 1 November 2006, with earlier adoption encouraged.

The issue

IFRIC 10 addresses an inconsistency both within IAS 34 and between IAS 34 and IAS 36/ IAS 39 regarding the reversal of impairment losses – which arises from the following requirements.

IAS 34 requires an entity to apply the same accounting principles in its interim financial statements as are applied in its annual financial statements but also states that "the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis."

IAS 36, paragraph 124, states that "An impairment loss recognised for goodwill shall not be reversed in a subsequent period."

IAS 39, paragraph 69, states that "Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss."

IAS 39, paragraph 66, requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

The requirements of IAS 36 and IAS 39 cited above have been read to require that an entity should not reverse in a subsequent interim period an impairment loss on goodwill or an investment in an equity instrument or in a financial asset carried at cost that it had recognised in a prior interim period. Such impairment losses would not be reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period. This is inconsistent with the IAS 34 requirement for year-to-date measurements in interim financial statements, which might be taken to suggest that an entity should reverse in a subsequent interim period an impairment loss it recognised in a prior interim period.

Such impairment losses would be reversed if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

The consensus

The IFRIC concluded that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. Therefore, the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and in financial assets carried at cost in IAS 39 should take precedence over the more general statement in IAS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.

Limitation on application

IFRIC 10 specifically states that entities shall not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other Standards. This prohibition is due to the IFRIC's concern that the conclusion would be extended to other areas, even though the IFRIC has not studied those areas and therefore has not identified any general principles that might apply both to the Interpretation and to other areas of potential conflict.

Effective date and transition

Entities are required to apply IFRIC 10 for annual periods beginning on or after 1 November 2006. Earlier application is encouraged. If an entity applies the Interpretation for a period beginning before 1 November 2006, that fact should be disclosed.

The Interpretation should be applied to goodwill prospectively from the date at which the entity first applied IAS 36, and to investments in equity instruments or in financial assets carried at cost, prospectively from the date at which the entity first applied the measurement criteria of IAS 39.

Designed and produced by The Creative Studio at Deloitte, London.

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