

Circular 04/18 - Enforcement of Financial Information

IAS 34: Interim Financial Reporting Extent of Aggregation

1.0 Background

The Transparency Directive establishes the periodic financial information to be provided by issuers whose securities are admitted to trading on a regulated market. Recital 23 provides that ‘information requirements also require adequate control by the competent authority of the Member States’ of the issuer.

European National Enforcers of financial information monitor and review financial statements and consider whether they comply with International Financial Reporting Standards and other applicable reporting requirements, including relevant national law. The Malta Financial Services Authority (‘the Authority’) is the local independent authority responsible for ensuring that financial information provided by listed companies on the Regulated Market in accordance with the Transparency Directive complies with International Financial Reporting Standards and other applicable reporting standards.

In this capacity, the Authority has conducted ex-post focused examinations¹ on a selected sample of Half-Yearly Reports, made available to the public as required in terms of Listing Rule 5.85. The examination involved determining whether the condensed financial statements provided the necessary level of disclosures as required in terms of IFRS, specifically IAS 34 Interim Financial Reporting (‘IAS 34’).

The considerations factored in the selection process include:

- [i] Whether condensed financial statements including selected explanatory notes were published in the interim financial report [IAS 34, paragraph 10];
- [ii] Whether the published condensed interim financial statements have been reviewed in accordance with the requirements of ISRE 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’;

¹ ‘Ex-Post Focused Examinations’ as defined in terms of the ESMA Guidelines on enforcement of financial information (10 July 2014 | ESMA/2014/807)

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[iii] Market capitalisation, and type of security amongst others.

As a result, 12 out of 48² Issuers (25%) have been selected for the purpose of this focused 'ex-post' examination.

2.0 Key Findings

The Authority notes 6 of the 12 sampled Issuers presented a Condensed Statement of Financial Position, which Condensed Statement of Financial Position consisted solely of the following headings and subtotals included in the most recent annual financial statements, being:

- (a) *Non-current assets*
- (b) *Current assets*
- (c) *Total assets*
- (d) *Total equity*
- (e) *Total non-current liabilities*
- (f) *Total current liabilities*
- (g) *Total liabilities*
- (h) *Total equity and liabilities*

The remaining 6 of the 12 sampled Issuers presented a Statement of Financial Position in the Interim Financial Report which was not only limited to headings and subtotals but disclosed each of the line items constituting a sub-total, as also included in the most recent annual financial statements.

² As at 31 December 2017.

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The Authority further notes that in the Condensed Statement of Cash Flows, 8 of the 12 sampled Issuers disclosed the following headings and subtotals that were included in its most recent annual financial statements, being:

Net cash flows from operating activities

Net cash flows used in investing activities

Net cash flows (used in)/ from financing activities

Net movement in cash and cash equivalents

Cash and cash equivalents at the beginning of the period

Cash and cash equivalents at the end of the period

The remaining 4 of the 12 sampled Issuers presented a Statement of Cash Flows in the Interim Financial Report which was not only limited to the headings and subtotals detailed above but also included details of the cash movements in accordance with IAS 7 – Cash Flow Statements, thereby disclosing each of the line items included in the most recent annual financial statements.

3.0 Discussion

The Authority recognizes the potential need for clarification on the application of the requirements regarding the presentation and content of the condensed interim financial statements according to IAS 34.

In this respect, reference is made to the International Financial Reporting Interpretations Committee ('IFRIC')'s agenda decision pertaining to IAS 34 Interim Financial Reporting with specific reference to the condensed statement of cash flows dated July 2014 which can be accessed via <http://media.ifrs.org/2014/IFRIC/July/IFRIC-Update-July-2014.html>.

The Authority would like to point out that the IFRIC discussion on the extent to which to condense financial information was limited to the condensed statement of cash flows.

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Paragraph 10 of IAS 34 provides that if an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements. Paragraph 10 of IAS 34 also requires additional line items to be included if their omission would make the interim financial statements misleading. The Authority emphasises that Paragraph 10 of IAS 34, particularly the first sentence, must not be considered and applied in isolation. Alternatively, in the formulation of an interim financial report, IAS 34 must be applied in its entirety, particularly in conjunction with paragraphs 15 and 25.

Paragraph 15 of IAS 34 specifies that an entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

In addition, paragraph 25 of IAS 34 states that the overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

The presentation of a three-line condensed statement of cash flows, which only shows totals for operating, investing and financing cash flows activities, does not help users to understand:

- (i) an entity's ability to generate and use cash flows during the interim period;
and
- (ii) how an entity's cash flow information has been updated with respect to the cash flow information included in the latest annual period.

As provided in terms of paragraph 3 and 4 of IAS 7, users of an entity's financial statements are interested in the manner in which the entity generates and uses cash and cash equivalents. A statement of cash flows, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and in assessing the ability of the entity to generate cash and cash equivalents amongst other uses.

4.0 Conclusion

In this respect, the IFRS Interpretations Committee³ noted that to meet the requirements in paragraphs 10, 15 and 25 of IAS 34 a condensed statement of cash flows should include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows. It also noted that it did not expect that a three-line presentation alone, showing only a total for each of the operating, investing and financing activities would meet the requirements in IAS 34.

As a result, the Authority reiterates the conclusion established by the IFRS Interpretations Committee in respect to the condensed statement of cash flows and argues that a condensed statement of financial position compliant with IAS 34 should include all information that is relevant in understanding the entity's financial position. It is not generally expected that an eight-line presentation alone, as outlined in Section 2.0 of this circular, titled 'Key Findings', would meet the requirements in IAS 34.

The Authority recognizes and appreciates that, as outlined in paragraph 25 of IAS 34, while judgement is always required in assessing materiality, the recognition and disclosure decision is to be based on the interim period financial data by itself for reasons of understandability of the interim figures.

IAS 1 Presentation of Financial Statements ('IAS 1') defines an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. Paragraph 29 of IAS 1, which applies to the structure and content of condensed interim financial statements as established in paragraph 4 of IAS 1, states that an entity shall present separately: each material class of similar items and items of a dissimilar nature or function unless they are immaterial. The application of the general principles in IAS 1 for presenting information should be considered within the context of the requirements in IAS 34.

The interim financial statements should not be considered to be a summary that duplicates information from the latest set of annual financial statements but rather a report that provides an update on the entity's new activities, events and circumstances arising during the interim period.

³ The IFRS Interpretations Committee meeting of 15-16 July 2014.

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Contacts

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2 May 2018