

# Financial Reporting Supplement The DTR and IAS 34 in practice

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## Introduction

In the UK, many fully-listed companies are facing the challenge of applying new transparency requirements to their half-yearly financial reports for the first time. These new requirements include the application of IAS 34 *Interim Financial Reporting*, a standard that represents a significant change to the previous Listing Rule requirements.

With few UK examples yet published, this *Supplement* looks at practice in Germany, where the new regime was implemented earlier than in the UK, and at some examples of the very first UK companies to apply the new requirements, to identify emerging trends in their application.

## Background

For UK fully-listed companies, the Disclosure and Transparency Rules<sup>1</sup> (DTR) issued by the Financial Services Authority (FSA) became effective for periods commencing on or after 20 January 2007 and introduced changes to the periodic reporting regime. The DTR incorporate the requirements of the EU Transparency Directive.

As discussed in the August/September 2007 issue of *Financial Reporting Update*, companies with either shares or debt securities (as defined in the DTR) admitted to trading on a regulated market are required to publish a half-yearly financial report within two months of the half-year period end that includes:

- an interim management report
- condensed financial statements
- a responsibility statement.

If the company is required to prepare its consolidated financial statements in accordance with EU-adopted IFRSs, then the condensed financial statements included in the half-yearly financial report must be prepared in accordance with IAS 34 as adopted by the EU (adopted IAS 34) (DTR 4.2.4).

<sup>1</sup> The UK FSA's Disclosure and Transparency Rules are available from the FSA's Web site at [www.fsa.gov.uk](http://www.fsa.gov.uk). The DTR apply only to EU-regulated markets, e.g., not AIM or PLUS.


It follows that the first UK companies that are required to report their half-yearly results in accordance with adopted IAS 34 are those with late January year ends. Companies with a 31 January 2007 year end were obliged to publish their half-yearly financial reports by 30 September 2007. Companies with December year ends will be required to report in accordance with adopted IAS 34 in their half-yearly financial reports for the period ending 30 June 2008.

The EU Transparency Directive has been implemented from different dates in each member state across Europe. In Germany, for example, as a general rule the requirements of the Transparency Directive have to be applied for accounting periods beginning after 31 December 2006. This means that a number of listed German companies have already applied IAS 34 to their half-yearly financial reports for the six months ended 30 June 2007.

## Our survey

Our survey covered the half-yearly financial reports of 25 companies from the German DAX<sup>2</sup> for the period ended 30 June 2007 that have been prepared in accordance with adopted IAS 34 and the Transparency Directive measures equivalent to those in the UK's DTR.

We also looked at the half-yearly financial reports of six of the first UK companies (all retailers) to apply the new requirements, prepared for the six-month<sup>3</sup> period ended on or around 31 July 2007.



25 of the DAX30 were included in our survey. Three of the remaining five companies reported under US GAAP in their most recent interim financial statements (as permitted by the relevant transitional provisions of the Transparency Directive implementation in Germany). The remaining two were not yet required to comply with the Transparency Directive as their accounting periods commenced before 31 December 2006.

The survey is not a commentary on the appropriateness or otherwise of any particular practice, and the approaches highlighted may not reflect the most appropriate application of the relevant requirements in the circumstances of your company. In many cases further interpretation will be needed in order for an entity to apply the requirements to its own facts and circumstances. If you would like to discuss any aspect of the requirements further, please speak to your usual KPMG contact.

The DTR refers to six-monthly financial reports as "half-yearly". In practice, our survey found that the name of the document has companies divided. In the UK, companies were evenly split between "Half-yearly report" and "Interim report". The German examples also use both names, with the majority using "Interim report".

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<sup>2</sup> DAX® is the blue-chip index of Deutsche Börse. It includes the 30 largest German securities in terms of market capitalisation and order book turnover from classic and technology sectors which are admitted to the Prime Standard segment of the Official Market or Regulated Market. More information on the constituents of the DAX and copies of these companies' half-yearly financial statements are available from the Web site of the Frankfurt stock exchange at <http://deutsche-boerse.com>.

<sup>3</sup> Typically the 26-week period ended 4 August 2007.

The overall length of half-yearly financial reports in the UK ranged from 11 to 24 pages (17 pages on average) – generally shorter than the German equivalents, which ranged from 20 to 86 pages (44 pages on average). In the UK this comprised, on average, a management report section of six pages (23 in Germany) and financial information of nine pages (19 in Germany). Some of the reasons for the differences between the two countries are discussed further below.

We consider each of the elements of a half-yearly financial report in the following sections.

## Management report

DTR 4.2.7 requires that the interim management report must include at least:

- an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year.

In our survey, the length of the management reports presented by German listed companies ranged from 11 to 46 pages (23 pages on average). In all cases, the management report was presented as a separate section of the half-yearly financial report.

The narrative discussion generally focused on the financial performance during the period. The balance sheet was discussed to varying degrees, the discussion ranging from changes in net debt and capital expenditure to total assets and other indicators of financial position. The majority of companies also commented on the cash flows during the period.

The requirement to present a description of the principal risks and uncertainties was most often dealt with by cross-reference to the risk discussions included in the last annual report with, where appropriate, a narrative update to those risks. This discussion was dealt with in the majority of cases in a separate section of the management report, for example in a “risk report” or in the “outlook” or “prospects” section of the management report.

In the UK examples, the length of the narrative management report ranged from four to 11 pages (six pages on average) – significantly shorter than the examples from Germany – due in part to the fact that the German examples discussed the results of the second quarter as well as the first half of the year. German companies also tended to include more analysis of financial data within the management report.

DTR 4.3 requires companies with shares (as defined in the DTR) admitted to trading on a regulated market to produce interim management statements (IMs) between ten weeks after the beginning and six weeks before the end of each of the first and second six month periods of the year. The August/September 2007 issue of *Financial Reporting Update* discussed our survey of the IMs of all 27 companies within the FTSE 100 with years commencing between 20 January and 1 April 2007. See also further discussion of IMs on page 8 of this *Supplement*.

In our separate survey of the first interim management statements issued by UK companies we noted that companies generally provided some discussion of financial performance but far less discussion, if any, of financial position. It appears that the extent of narrative discussion of financial performance and financial position in the half-yearly management report also varies. The UK examples of half-yearly financial reports once again focused on performance, although generally reference was made to net debt and capital expenditure as regards the balance sheet position and cash flows. This may be a reflection of the sector in which the UK examples operate and we believe wider best practice will emerge only over time.

In terms of principal risks and uncertainties, the disclosure made by UK companies generally was less extensive and included less specific disclosure than German companies. Half of the UK companies included a cross-reference to their annual report (either in the management report or financial information section of the half-yearly financial report). One company included specific discussions of the principal risks and uncertainties for the remainder of the year. Other approaches included general comments in the outlook section and a bullet point list in a separate section of the management report with limited narrative discussion.

UK companies should take care not to overlook the new disclosure requirement in respect of principal risks and uncertainties for the remaining six months of the financial year.

*Disclaimer in respect of forward-looking statements*

15 (60 percent) of the German listed companies surveyed included a disclaimer in respect of forward-looking statements within their half-yearly financial report to highlight to readers that actual performance in the remaining six months of the year may differ from the assumptions and forecasts included in the half-yearly financial report.

In the UK, half of the companies surveyed made a similar cautionary statement. An example of the type of statement made is as follows:

*This [interim report] may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, [Group] management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the [Group] and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this document. The [Group] accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.*

*Related party disclosures*

DTR 4.2.8 requires the following (as a minimum) to be disclosed in the management report in respect of related party transactions:

(a) related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the entity during that period; and

(b) any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the entity in the first six months of the current financial year.

16 of the German companies surveyed made reference to related party transactions in the period, either to confirm that there had been no changes to the nature of related party transactions entered into since the last annual report (six companies), or to disclose details of transactions or major changes having taken place in the period (10 companies).

Of the UK companies surveyed, only one disclosed details of related party transactions and another confirmed that no such material transactions had taken place in the half-year under review and included a cross-reference to the last annual report. The remaining four companies made no reference to related party transactions.

UK companies should take care, where relevant, not to overlook this new disclosure requirement.



In Germany, issuers of securities listed on a public exchange in a third country (e.g., US-listed companies) that applied international accounting standards (e.g., US GAAP) for years beginning before 11 September 2002 were not required to adopt IFRSs as adopted by the EU until periods commencing after 31 December 2006.

## Condensed financial statements

If the entity prepares consolidated annual financial statements, DTR 4.2.4 requires that consolidated condensed financial statements be prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The presentation and disclosure requirements applicable to condensed financial statements are set out in adopted IAS 34 and are less than those required for a full set of financial statements prepared in accordance with IFRSs as adopted by the EU.

### Statement of compliance

If an entity's interim financial report is in compliance with IAS 34, that fact is disclosed (IAS 34.19). Only if the financial statements comply with all of the requirements of adopted IFRSs can they be described as being in accordance with "IFRSs as adopted by the EU" (IAS 1.14 and IAS 34.19).

Our review of German practice indicated that the vast majority of companies prepared condensed financial statements and stated compliance with IAS 34. We also noted references to IFRSs as adopted by the EU generally which might be misinterpreted as compliance statements.

The length of the financial information presented ranged from six to 44 pages (17 pages on average) for those companies who had already applied adopted IFRSs in a previous period. As noted below, the two companies applying adopted IFRSs for the first time included full descriptions of accounting policies which resulted in additional pages; others included up to six pages of detailed information in respect of non-GAAP information. Financial institutions, in particular, gave more extensive note disclosures within the financial information section of the report.

In the UK examples, the financial information ranged from four to 15 pages (nine pages on average) and in five cases included a statement of compliance with IAS 34 as adopted by the EU (the remaining example reported compliance with IAS 34).

UK companies reporting for the first time in accordance with IAS 34 should take care in the drafting of their statement of compliance. Consistent with the requirements of the DTR, the compliance statement should identify that the standard applied is IAS 34 as adopted by the EU.

A statement of compliance with full IFRSs as adopted by the EU is not appropriate unless all applicable disclosure requirements of those standards have been met, which is unlikely to be the case.

Examples of the compliance statement required by adopted IAS 34.19 include:

*This half-yearly financial information has been prepared in accordance with IAS 34 as adopted by the EU.*

Or

*This half-yearly financial information has been prepared in accordance with adopted IFRSs for interim financial statements (adopted IAS 34 Interim Financial Reporting).*

### Primary statements

IAS 34 requires a condensed interim financial report to include each of the primary statements that are required in annual financial statements (IAS 34.8). As well as an income statement, balance sheet and cash flow statement, an entity presents either a statement of all changes in equity or a statement of recognised income and expense, consistent with the statement presented in its annual financial statements.

The primary statements must include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements (IAS 34.10). There is no specific guidance in IAS 34 or IAS 1 *Presentation of Financial Statements* as to what constitutes "headings and subtotals".

Our review of German practice revealed that the format used for the presentation of the primary statements was generally identical to that adopted in the most recent annual financial statements, i.e., they did not aggregate items presented separately in the annual financial statements. The notable exceptions to this were one company which aggregated a small number of line items compared to its annual report presentation and the two companies reporting under IFRSs for the first time which previously reported under US GAAP.

In the UK examples, the format used for the presentation of the primary statements was again identical to that adopted in the most recent annual financial statements, with the minor exception that one company presented a single tax line in its half-year income statement but analysed this into UK and US tax in its last annual report. This may reflect that the requirement of Listing Rule 9.9.8 to disclose overseas tax on the face of the income statement is no longer applicable.

We recommend that UK companies use the same primary statement format as in the most recent annual financial statements when reporting under IAS 34. Any summarisation of the primary statements should be carefully considered.

### Comparatives

IAS 34.20 specifies the comparative periods required to be presented in interim financial statements. The table below illustrates those periods, using an example of a December year end company that presents half-yearly (but not quarterly) information in accordance with IAS 34<sup>4</sup>.

	<b>Current period</b>	<b>Comparative</b>
Balance sheet	As at 30 June 20X8	As at 31 December 20X7
Income statement	6 months ended 30 June 20X8	6 months ended 30 June 20X7
Cash flow statement	6 months ended 30 June 20X8	6 months ended 30 June 20X7
Statement of recognised income or expense (SORIE); <i>or (consistent with the annual financial statements)</i> Statement of changes in equity (SOCE)	6 months ended 30 June 20X8	6 months ended 30 June 20X7

In our survey of German practice, companies have presented information in respect of the second quarter in addition to the half year. This presentation reflects that, in Germany, certain listed companies are required to prepare quarterly financial information in accordance with IAS 34. Consequently IAS 34 requires an additional income statement for the three months to 30 June (with comparatives) to be presented.

The quarterly reporting requirements for German companies can be contrasted with the requirements of DTR 4.3 in the UK<sup>5</sup>. This requires companies with shares (as defined in the DTR) admitted to trading on a regulated market to produce interim management statements (IMs) between ten weeks after the beginning and six weeks before the end of each of the first and second six-month periods of the year, to cover the period between the start of the relevant six-month period and the publication date. There is no requirement to prepare the IMS in accordance with IAS 34, though companies are permitted to prepare quarterly reports in place of an IMS and those quarterly reports may be prepared in accordance with IAS 34.

In the UK, our recent survey of IMs<sup>5</sup> of 27 FTSE100 companies indicated that three of those companies produced “full” quarterly reports – i.e., included primary statements, selected notes and a management report commentary. Only one of these companies stated compliance with IAS 34 as adopted by the EU. If such an approach is taken, the requirement to present additional income statement information in the half-yearly financial report in respect of the second quarter of the year should not be overlooked.

IAS 34 does not preclude the voluntary presentation of additional periods.

<sup>4</sup> A company that presents quarterly information in accordance with IAS 34 is required to present the income statement for the most recent quarter and the year to date, each with comparatives.

<sup>5</sup> As discussed in the August/September 2007 issue of *Financial Reporting Update*.

Several of the German listed companies surveyed presented additional comparative financial information beyond that required by IAS 34. These disclosures varied, but that most commonly given was a comparative interim balance sheet (i.e., at 30 June for a 31 December year end). In one case a comparative full year income statement, cash flow statement and statement of recognised income and expense was also given.

In the UK examples, in addition to presenting the periods required by IAS 34 as adopted by the EU, all six voluntarily presented full year comparative information for each of the income statement, cash flow statement and SORIE, plus a comparative interim balance sheet. This approach is consistent with previous practice. However, if either an income statement or balance sheet is presented in respect of a statutory period or reporting date, UK companies should remember to include a statement in accordance with section 240 of the Companies Act 1985 (section 435 of the Companies Act 2006 in due course) to clarify that the full year information does not constitute the company's statutory financial statements.

In addition, one UK company also presented second quarter performance statements with comparatives, even though it had not stated that its quarterly report (presented instead of an IMS) complied with IAS 34.

### Note disclosures

#### *Accounting policies*

IAS 34.16(a) requires a statement to be made 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.

In our review of German practice, compliance with this requirement was generally achieved by incorporating accounting policies by cross-reference to the last annual report.

In the two cases of first-time adoption of IFRSs, specific additional disclosures were made in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and in these cases full disclosure of the IFRS accounting policies adopted was made.

Perhaps surprisingly, only seven companies disclosed a specific accounting policy in respect of tax, an area where, under IAS 34, the measurement basis may differ from that in the annual financial statements. Interestingly, one of these companies stated that its policy is to calculate its interim tax charge in the same way as at the full year end. IAS 34 requires the interim tax expense to be based on the estimated effective full year tax rate.

Nine companies reported changes of accounting policies; these included reclassifications of income statement items, the adoption of IFRIC 4 *Determining whether an Arrangement contains a Lease* and the adoption of a policy to recognise actuarial gains and losses on defined benefit pension schemes directly in equity rather than using the corridor approach. The level of disclosure in respect of the resulting adjustment to the comparative financial information varied. In five cases the effect of the policy change was both explained and quantified, while in the other cases only a narrative explanation of the change was given. Explicit disclosures in the SORIE or SOCE were generally not made (although in the case of income statement reclassifications this would not be expected).

IFRS 7 *Financial Instruments: Disclosures* is the only new standard that is mandatorily effective for the first time in periods commencing on or after 1 January 2007. As this is a disclosure standard, its provisions had generally not been adopted in the half-yearly financial reports that we reviewed (and were not explicitly required to be), with the notable exception of financial institutions (e.g., banks), which tended to make quite extensive disclosures further to IFRS 7.

Four of the UK companies surveyed referred to the use of the estimated effective tax rate for the full year. A different four companies disclosed significant influences on the interim tax calculation, three of these referring to the effect on deferred tax balances of the change in the UK corporation tax rate from 30 to 28 percent and two citing resolution of prior year tax enquiries.

In the UK examples, in all cases the accounting policies were included by cross-reference to the last annual financial statements. One company disclosed classification changes compared to the last half-yearly financial report – to disclose income statement expenses by function rather than nature (consistently with its last annual report), and to recategorise certain balance sheet amounts.

In assessing the impact of standards becoming effective for the first time in 2007/8, companies should give due consideration as to whether the nature of their business is such that disclosures further to IFRS 7 are necessary in order to give a proper understanding of the changes in financial position and performance since the last annual reporting date.

### *Segment information*

Under adopted IAS 34, if an entity is required to disclose segment data in its annual financial statements, IAS 34.16(g) requires disclosures of segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting under IAS 14 *Segment Reporting*.

Once IFRS 8 *Operating Segments* is endorsed by the EU, its adoption will amend the requirements of IAS 34 such that more extensive disclosure will be required as follows:

- (i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;
- (ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;
- (iii) a measure of segment profit or loss;
- (iv) total assets for which there has been a material change from the amount disclosed in the last annual financial statements;
- (v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss;
- (vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

In this respect it is worth noting that the version of IAS 34 contained in the IASB's 2007 bound volume has already replaced the IAS 14 references with those to IFRS 8. Accordingly, care should be taken to ensure the correct version of IAS 34 is used when segment information is presented based on IAS 14.

Although all of the German listed companies reviewed presented their segment information in accordance with adopted IAS 34 on an IAS 14 basis, two companies presented additional voluntary information on an IFRS 8 basis.

Several companies provided additional information to that required by IAS 34, most commonly including segment information by geographical region as well as by primary business segment. Three companies provided segment information in respect of all of their primary financial statements.

All but one of the UK examples included segment information (on an IAS 14 basis). The other company stated in its annual financial statements that it has only one business and geographical segment and hence did not disclose any segment information in the notes to the half-yearly financial information.

### *Seasonality*

IAS 34.21 suggests that for an entity whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful.

None of the companies surveyed disclosed such information. However, a number of companies gave explanatory comments, predominantly in the narrative management report rather than in the notes to the financial information, in respect of seasonality (IAS 34.16(b)).

In the UK examples, seasonality disclosures, where given, were most often included in the narrative sections; in only one case did these appear in the condensed financial information itself.

### *Changes in composition of group*

IAS 34.16(i) requires disclosure of changes in the composition of the entity during the interim period, including business combinations, disposals of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the company should include the information required to be disclosed under paragraphs 66 to 73 of IFRS 3 *Business Combinations*.

Our survey noted that German listed companies often addressed this disclosure requirement using a tabular presentation showing either movements in the number of entities included in the consolidation, or the financial effect on the results for the period of such changes in the composition of the group, with additional disclosures further to IFRS 3 in respect of acquisitions in the period.

Two companies surveyed presented discontinued operations for the first time in the interim period and re-presented comparative information accordingly. Typically the results of the discontinued operations were excluded from the disclosed segment information.

None of the UK examples identified any changes in the composition of the group or disclosed discontinued operations.

The potentially extensive business combination disclosures will be new for UK companies and should not be overlooked. A company with operations that become discontinued in the interim reporting period should classify the operations as such and re-present their comparative income statement in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

*Material and unusual items*

IAS 34.16 requires disclosure of any events or transactions that are material to an understanding of the current interim period. More specifically, IAS 34.16(c) requires disclosure of the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

Our review of German practice indicated that eight companies had made such disclosures, tending to describe the items concerning as “special items/factors” or as “non-recurring items”, and in most cases disclosing the items in the narrative management report rather than on the face of the income statement. The nature of these items included severance payments, profits/losses on disposal of businesses and the marking-to-market of derivatives.

In the UK, half of the companies reviewed described amounts as “exceptional”, including profits and losses on disposal of non-current assets, impairment charges, business closure and restructuring costs. In two of the three cases the effect of these items was disclosed on the face of the income statement.

In assessing the level of disclosure necessary in this area, companies should note that materiality should be assessed in relation to the interim period financial data (IAS 34.23).

*Post balance sheet event disclosures*

IAS 34.16(h) requires disclosure of material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

The most common subsequent event disclosed in Germany was the post balance sheet approval of a change in the German rate of taxation.

No significant post balance sheet events were reported in the UK.

*Other material disclosures*

As noted above, the general principle of IAS 34.16 is that disclosure should be made of any events or transactions that are material to an understanding of the current interim period. Examples of the types of disclosure that may therefore be required are listed in IAS 34.17; this may include inventory write-downs, reversals of provisions and settlements of litigation.

The types of disclosures made by the German companies reviewed ranged from IFRS 7 disclosures by banks, to disclosure of movements in share options, to details of movements in property, plant and equipment, to (as discussed above) details of related party transactions.

In the UK, less disclosure of this nature was generally made. In our view, disclosures of the type listed in IAS 34.17 are dictated by companies’ specific circumstances and are only necessary where material to an understanding of the half year. However, UK companies should be prepared to make more disclosure than has historically been given in half-yearly financial reports.

### Measurement issues

Generally, IAS 34 requires the application of the same recognition and measurement principles to assets, liabilities, income and expense as at the full year-end reporting date, treating the interim period as a discrete period. Costs that are incurred unevenly throughout the financial year may only be anticipated or deferred for interim reporting purposes if it is also appropriate to anticipate or defer that type of cost at the end of the full financial year (IAS 34.39). As noted earlier, the exception to this is that the income tax expense is calculated based on the best estimate of the weighted average annual income tax rate expected to apply for the full financial year. Further guidance on these principles is given at Appendix B to the standard.

#### *Use of estimates*

IAS 34.41 notes that the preparation of interim financial reports will generally require a greater use of estimation methods than annual financial reports. Appendix C of the standard gives examples of the application of this principle. These include the measurement of pension obligations and plan assets, property valuations and fair value accounting.

The interim balance sheet position for employee benefit obligations is usually determined by adjusting the opening balance sheet for the current service cost, interest cost, expected return on assets, amortisation of actuarial gains and losses, and contributions to the plan. Generally it does not involve obtaining an updated actuarial valuation. However, material changes to the plan, such as a curtailment or settlement or unexpected significant changes in market conditions, should be adjusted for in the interim calculation. Alternatively, a company may choose to update its actuarial valuation more frequently than annually (as a policy choice). Where an updated valuation is obtained, both the defined benefit obligation and the plan assets should be considered.

Our survey indicated that nine of the ten German companies adopting a policy of reporting actuarial gains and losses directly in equity appeared to have obtained an up-to-date pension plan valuation at the interim reporting date (the tenth showed an actuarial gain/loss of nil in the first half of 2007 but reported a movement in the comparative half-year period in 2006).

Other typical valuation adjustments were in relation to cash flow hedge accounting and the fair values of available for sale assets.

In the UK examples, three of the six companies appeared to have obtained updated defined benefit valuations and one of the companies disclosed no such obligations. Whether or not a valuation update has been obtained, an adjustment to the associated deferred tax balance as a result of the change in the UK tax rate from 1 April 2008 would be expected; two companies had clearly recognised such an adjustment in the SORIE.



## Responsibility statements

DTR 4.2.10 requires that the “persons responsible” within the company make responsibility statements setting out that to the best of their knowledge:

- the condensed set of financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view;
- that the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and description of the principal risks and uncertainties in respect of the remaining six months, as well as the related party disclosures required by DTR 4.2.8 (see above).

### Persons responsible

DTR 4.2.10 also requires that the name and function of any person who makes a responsibility statement are clearly indicated within it. In respect of annual reports, for which similar requirements are set out in DTR 4.1.12, the “persons responsible” under company law are all the directors collectively.

In respect of half-yearly financial reports, the definition of “persons responsible” is less clear as there are no statutory provisions in this area.

Our review of German practice indicates that the responsibility statement is typically signed by all members of the executive management board – in some cases up to nine individual signatures were given. In one case the responsibility statement was signed by one individual on behalf of the management board, noted as being the personally liable managing partner and chairman of the management board. In another example the statement was signed by the Chief Executive Officer and the Chief Financial Officer and in one other case the statement did not include the name or signature of the person(s) making the statement.

In the UK examples, five of the six companies surveyed had included a responsibility statement. This was in three cases signed by the group chief executive and group finance director, in one case by the company secretary on behalf of the board, and one company gave the statement on behalf of the board but included no name or signature.

As we noted in the August/September 2007 issue of *Financial Reporting Update*, UK companies may wish to obtain specific legal advice in this area.

The ASB Statement *Half-Yearly Financial Reports*, issued in July 2007, provides guidance for UK entities that are required or voluntarily choose to prepare half-yearly financial reports, other than those required by the DTR to apply IAS 34.

#### True and fair?

As set out above, in the half-yearly financial report the directors are required to make a responsibility statement which states that the condensed set of financial statements gives a true and fair view. Interestingly, following discussion in the UK, the DTR permits an alternative approach of stating that the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU (or the ASB equivalent, for those not using EU-adopted IFRSs).

Our review of German practice shows that in all cases the responsibility statement stated that the condensed set of financial statements gave a true and fair view in accordance with the applicable reporting principles for interim financial reporting.

Consistent with the DTR, we recommend that directors should use the alternative approach of stating compliance with IAS 34 as adopted by the EU, i.e., they should not state that the condensed set of financial statements gives a true and fair view. All of the UK responsibility statements reviewed followed this alternative approach.

#### Auditor review opinion

There is no requirement for the half-yearly financial report to be audited or reviewed by a company's auditor. DTR 4.2.9 states that if the half-yearly financial report has been audited or reviewed by the auditor pursuant to the Auditing Practices Board guidance on *Review of Interim Financial Information*, the audit report or review report must be reproduced in full. Further, if the half-yearly financial report has not been audited or reviewed by the auditor, the company must make a statement to this effect in its report.

In the UK, the Auditing Practices Board (APB) has recently issued new guidance on the review of interim financial information<sup>6</sup>.

Of the German listed companies surveyed, 60 percent (15) had obtained a review opinion from their auditor. Of those that did not obtain a review opinion, three made a clear statement that the financial information had neither been reviewed nor audited by the auditor. Three described the information as unaudited or stated that no audit had been carried out and a further three stated that the information had not been reviewed by the auditor. Only one company made no reference to the fact that no audit or review had been carried out.

In the UK examples, four of the six had obtained an auditor review opinion (only one of the other two specifically stated that no review had been carried out).

<sup>6</sup> ISRE (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, which replaces APB Bulletin 1999/4 *Review of Interim Financial Information*



## Conclusion

The introduction in the UK of half-yearly financial reports in accordance with adopted IAS 34 represents another step-change in communication between companies and the capital markets.

It is clear from our survey that compliance with adopted IAS 34 is likely to result in longer communications and more disclosure in half-yearly financial reports than under past UK practice. The challenge for companies is once again to make sure that *more* translates into *better*. The flexibility to present more focused disclosure in half-yearly financial reports than in the longer annual financial statements make it essential that companies devote the necessary effort to preparing this important element of their communication cycle.

Practice will evolve over time and our survey suggests that initially there may be divergence in the approaches taken. In the meantime, the winners might be those that lead, rather than follow behind, best practice.



## Further guidance

### **Illustrative condensed interim financial statements (March 2006)**

This publication, produced by KPMG IFRG Limited, illustrates one possible format for condensed interim financial statements in accordance with IAS 34, based on a fictitious multinational corporation involved in general business; the corporation is not a first-time adopter of IFRSs. The publication does not give guidance on the requirements of the Transparency Directive.

The publication is available to download in pdf form at [www.kpmgifrg.com](http://www.kpmgifrg.com).

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## Notes



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