

Thematic Review – Disclosures relating to the implementation of new standards within 2018 interim accounts

The FRC will monitor companies' disclosures of the impact of the new financial reporting standards IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' in interim accounts issued in 2018.

The standards are mandatory for annual reporting periods beginning on or after 1 January 2018. Interim accounts are prepared using the same accounting policies as those to be applied in the next set of annual accounts. For example, a company with an annual reporting period commencing on 1 January 2018 will need to apply the new standards when it releases its interim accounts for the 6 month period to 30 June 2018.

We were disappointed by the results of our recent focused review of the impact of the new standards in a sample of December 2016 accounts, as reported in the 'Annual Review of Corporate Reporting 2016/17'. We expect companies to include detailed quantitative disclosure of their effect in their final accounts before implementation of the new requirements, e.g. in December 2017 year-end accounts. We expect this to be followed up with supporting explanation in the interim accounts, prepared in accordance with the new requirements. It will be particularly important to provide meaningful and clear explanation of expected changes where disclosure of the impact of the new standards provided to date has been limited.

IAS 34 'Interim Financial Statements' requires a company to describe the nature and effect of a change of accounting policy. The FRC expects:

- quantitative disclosure to be accompanied by informative and detailed explanation of the changes, tailored to the company's specific circumstances and transactions;
- any key judgments made by management in applying the new concepts and methodologies that are introduced by the new standards to be clearly explained; and
- an explanation of how the transition has been implemented, after careful consideration of the transitional disclosure requirements under these new standards and the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Notes:

1. The 'Annual Review of Corporate Reporting 2016/17' may be found at <http://www.frc.org.uk/getattachment/311af48c-bdfa-4484-8e7d-6de689fd8f4b/Corporate-reporting-SoN-FINAL.pdf>
2. Some companies, such as those listed on the AIM market, are not required to comply with IAS 34. However a discussion of the nature and effect of a change in accounting policy is necessary for all companies in order to provide meaningful information to readers of their interim accounts.