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**INTERPRETATION OF  
FINANCIAL  
REPORTING STANDARD**

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**INT FRS 110**

**Interim Financial Reporting and Impairment**

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***INTERIM FINANCIAL REPORTING AND IMPAIRMENT***

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**BASIS FOR CONCLUSIONS**

Interpretation of FRS 110 *Interim Financial Reporting and Impairment* (INT FRS 110) is set out in paragraphs 1–10. INT FRS 110 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface* to the Interpretations of Financial Reporting Standards.

# INTERPRETATION OF FINANCIAL REPORTING STANDARD INT FRS 110

## *Interim Financial Reporting and Impairment*

### References

- FRS 34 *Interim Financial Reporting*
- FRS 36 *Impairment of Assets*
- FRS 39 *Financial Instruments: Recognition and Measurement*

### Background

- 1 An entity is required to assess goodwill for impairment at every reporting date, to assess investments in equity instruments and in financial assets carried at cost for impairment at every balance sheet date and, if required, to recognise an impairment loss at that date in accordance with FRS 36 and FRS 39. However, at a subsequent reporting or balance sheet date, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This Interpretation provides guidance on whether such impairment losses should ever be reversed.
- 2 The Interpretation addresses the interaction between the requirements of FRS 34 and the recognition of impairment losses on goodwill in FRS 36 and certain financial assets in FRS 39, and the effect of that interaction on subsequent interim and annual financial statements.

### Issue

- 3 FRS 34 paragraph 28 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It 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.'
- 4 FRS 36 paragraph 124 states that 'An impairment loss recognised for goodwill shall not be reversed in a subsequent period.'
- 5 FRS 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.'
- 6 FRS 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.

- 7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date?

### **Consensus**

- 8 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.
- 9 An entity shall not extend this consensus by analogy to other areas of potential conflict between FRS 34 and other standards.

### **Effective date and transition**

- 10 An entity shall apply the Interpretation 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, it shall disclose that fact. An entity shall apply the Interpretation to goodwill prospectively from the date at which it first applied FRS 36; it shall apply the Interpretation to investments in equity instruments or in financial assets carried at cost prospectively from the date at which it first applied the measurement criteria of FRS 39.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, INT FRS 110.*

- BC1 This Basis for Conclusions summarises the considerations in reaching the consensus. Greater weight was given to some factors than to others.
- BC2 FRS 34 requires an entity to apply the same accounting policies in its interim financial statements as it applies in its annual financial statements. For annual financial statements, FRS 36 prohibits an entity from reversing an impairment loss on goodwill that it recognised in a prior annual period. Similarly, FRS 39 prohibits an entity from reversing in a subsequent annual period an impairment loss on an investment in an equity instrument or in a financial asset carried at cost. These requirements might suggest 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.
- BC3 However, FRS 34 requires year-to-date measures in interim financial statements. This requirement might 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.
- BC4 The Draft Interpretation ED INT FRS *Interim Financial Reporting and Impairment* was released for public comment in January 2006.
- BC5 It was noted that many of the respondents believed that in attempting to address contradictions between standards, the Draft Interpretation was beyond the scope of the INT FRS. Some believed that the issue addressed could be better resolved by amending FRS 34. The decision was made, however, to not amend FRS 34 and to continue with the Interpretation.
- BC6 Respondents to the Draft Interpretation were divided on whether the proposed Interpretation should prohibit the reversal of impairment losses on goodwill or investments in equity instruments or in financial assets carried at cost that had been recognised in interim periods. These responses were considered but the view that such losses should not be reversed in subsequent financial statements was maintained. It was observed that the wide divergence of views evident from respondents' letters underlined the need for additional guidance and it was therefore decided that the Interpretation would be issued with few changes from the Draft Interpretation.
- BC7 The example of Entity A and Entity B, which each hold the same equity investment with the same acquisition cost was considered. Entity A prepares quarterly interim financial statements and Entity B prepares half-yearly financial statements. The entities have the same year-end. It was noted that if there was a significant decline in the fair value of the equity instrument below its cost in the first quarter, Entity A would recognise an impairment loss in its first quarter interim financial statements. However, if the fair value of the equity instrument subsequently recovered, so that by the half-year date there had not been a significant decline in fair value below cost, Entity B would not recognise an impairment loss in its half-yearly financial statements if it tested for impairment only at its half-yearly reporting dates. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the measurement of its annual results when compared with Entity B's approach. It was

also noted that the recognition of an impairment loss could similarly be affected by the timing of the financial year-ends of the two entities.

- BC8 It was noted that paragraph B36 of Appendix B accompanying FRS 34 provides examples of applying the general recognition and measurement principles of that standard and states that FRS 34 requires an entity to apply the same impairment testing, recognition, and reversal criteria at an interim date as it would at the end of its financial year.
- BC9 It was concluded that the prohibitions on reversals of recognised impairment losses on goodwill in FRS 36 and on investments in equity instruments and in financial assets carried at cost in FRS 39 should take precedence over the more general statement in FRS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.
- BC10 Furthermore, it was concluded that the rationale for the non-reversal of impairment losses relating to goodwill and investments in equity instruments applies at both interim and annual reporting dates.
- BC11 A concern that this conclusion could be extended to other areas of potential conflict between FRS 34 and other standards was considered. Those areas have not been studied and therefore any general principles that might apply both to the Interpretation and to other areas of potential conflict have not been identified. A prohibition against extending the consensus by analogy to other areas of potential conflict between FRS 34 and other standards was therefore added.
- BC12 The Draft Interpretation proposed fully retrospective application. A number of comment letters stated that this could be read as being more onerous than the first-time adoption requirements of FRS 36. The wording of the transition requirements was revised to make clear that the Interpretation should not be applied to periods before an entity's adoption of FRS 36 in the case of goodwill impairments and FRS 39 in the case of impairments of investments in equity instruments or in financial assets carried at cost.