In brief

A look at current financial reporting issues

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Interim disclosures in the first year of applying IFRS 16

At a glance

After adopting IFRS 16, many companies will issue interim financial statements under IAS 34 before preparing the first annual financial statements. These interims will be the first financial statements applying IFRS 16, and so they will need additional disclosures to explain the changes. Investors, regulators and other stakeholders might focus on these disclosures.

What is the issue?

Interim financial statements need to disclose changes arising from IFRS 16

For many companies, IFRS 16, the new accounting standard for leases, will materially affect the financial position and results. It is important to clearly explain the changes to regulators, investors and other key stakeholders.

IFRS 16 does not introduce disclosure requirements that are additional to IAS 34. However, paragraph 16A(a) of IAS 34 requires a description of the nature and effect of any changes to accounting policies and methods since the most recent annual financial statements. In the first year of applying IFRS 16, this means that additional disclosures are required in the interim financial statements.

What is the impact and for whom?

What disclosures are required in interim financial statements in the year in which IFRS 16 is adopted?

The extent of the disclosures will depend on an entity's circumstances. Entities apply judgement to determine the extent of the disclosure, taking into consideration, for example:

- the requirements or expectations of local regulators: entities should consider any guidance issued by regulators that might require specific disclosures or information to be included in interim reports; some regulators might require all of the disclosures required in annual financial statements to be included in the interim report; and
- the significance of the changes: the extent of disclosures might vary depending on the effect on the financial statements of the initial adoption of IFRS 16; disclosures might be less extensive where the impact is not qualitatively or quantitatively material.

The disclosures might include:

- a description of the nature and effect of the change resulting from the new accounting policies (this disclosure is required by para 16A(a) of IAS 34);
- the key judgements made by management in applying IFRS 16 (for example, assessing whether an arrangement contains a lease, determining the lease term, calculating the discount rate, and whether any service/lease components of arrangements will be separated);
- details of the impact on the amounts presented in the interim financial statements, including earnings per share, the opening balance of retained earnings and alternative performance measures (where used), such as EBITDA and free cash flow;
- the transition method selected, together with any transitional practical expedients applied – entities that elect to apply the modified retrospective transition approach should consider whether the requirements of paragraphs C12–C13 of IFRS 16 for annual financial statements could be used to explain the nature and effect of the change in accounting policy; and
- disclosures specific to the entity – entities should consider whether the requirements in paragraph 28 of IAS 8, which will be applicable for the annual financial statements, could be used to explain the nature and effect of the change in accounting policy when IFRS 16 is first applied.

When does it apply?

Interim reporting periods for years beginning on or after 1 January 2019 (that is, after IFRS 16 has been adopted).

Any interim financial statements prepared under IAS 34 before the first annual financial statements applying IFRS 16 will need to consider the above guidance (that is, for quarterly reporting, disclosure is required in all quarterly financial statements, because it will still be a change from the last annual financial statements).

Where do I get more details?

The PwC Illustrative condensed interim financial statements provide illustrative disclosures.

Alternatively, contact Jessica Taurae (jessica.taurae@pwc.com) for more information.