Interim Financial Reporting
IAS 34

Siena, 2013 December 16th

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Agenda

- Why Interim Reporting?
- Origins
- Methods of preparation
- IAS 34: definition, scope, content
- EU Regulation and Italian Regulation
- Example: TOD’S group half-year 2013 report
- Observations and conclusions
**Why IR?**

IR = Financial Statements (FS) related to periods shorter than the annual financial year

IR is one of the areas of external communication of the company:
- Periodic information
- Price-sensitive information
- Episodic information

**Objective:**
To inform the market about the evolution of the company over time horizons less than the annual FS

**Relevance:**
- Mandatory adoption all over the world for listed companies
- Same dignity as for annual FS

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**USA**

- Lack of adequate corporate disclosure;
- Quality of information;
- Frequency of information

Need of higher level of transparency + frequency + regulations of accounting information

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Siena, 2013 | December 16th
**USA**

1934: SEC Security Exchange Commission

“… to restore investor confidence in capital markets…”

First IR (voluntary basis) = monthly Form 8-K

1970: Form 10

annual report Form 10-K

quarterly report Form 10-Q

AICPA American Institute of Certified Public Accountants (private)

appointed by SEC to provide accounting principles for FS preparation

1973: APB Opinion n.28 represents a standardization of the preparation and reporting of interim income statements

FASB Financial Accounting Standard Board (independent)

the purpose of elaborating both accounting principles and a conceptual framework

1978: FASB Discussion Memorandum *Interim Financial Accounting and Reporting*

**ITALY**

1974: Law n. 216 FIRST interim reports

obligation for directors of companies, listed on stock exchange markets, to prepare a report on the first half of the year (no quantitative or qualitative detailed indications)

CONSOB Commissione Nazionale per le Società e la Borsa

1985: Resolution concerning “provisional criteria” for the half-year report

CNDC-CNR and OIC

Consiglio Nazionale dei Dottori Commercialisti, Consiglio Nazionale dei Ragionieri, Organismo Italiano di Contabilità


guidances on the financial statements other than the annual and consolidated, which refer to a date other than the financial year
The theoretical approaches: Discrete and Integral approaches

Redaction of FS depends on the informative aims given to it

Discrete approach
interim period as a “stand-alone” period and the purpose is to provide evaluations which relate to the single period, regardless to the financial year horizon

Integral approach
interim period is a part of the annual period and to provide information to assess and forecast the trend of the entire financial year

A comparison between the two approaches

<table>
<thead>
<tr>
<th>DESCRIPTIVE</th>
<th>VS</th>
<th>INTEGRAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>To inform on the evolution during the year</td>
<td>INTERIM REPORT</td>
<td></td>
</tr>
<tr>
<td>interim period as a stand-alone period</td>
<td>OBJECTIVE</td>
<td></td>
</tr>
<tr>
<td>“physical time”</td>
<td>PERIOD OF REFERENCE</td>
<td></td>
</tr>
<tr>
<td>data and information of the interim period</td>
<td>ACCRUAL PRINCIPLE (costs and revenues)</td>
<td></td>
</tr>
<tr>
<td>income of the interim period</td>
<td>SIGNIFICANCE/ MATERIALITY PRINCIPLE</td>
<td></td>
</tr>
<tr>
<td>forecasted income</td>
<td>INCOME</td>
<td></td>
</tr>
</tbody>
</table>

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Siena, 2013 December 16th
The objectives of the IASC Foundation are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies;

(d) to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions”

(IFRS Foundation, Constitution revised and approved by the Trustees, January 2013, p. 5)

IAS 34 Interim Financial Reporting

History of IAS 34

August 1997 Exposure Draft E57 Interim Financial Reporting
June 1998 IAS 34 Interim Financial Reporting
1 July 1999 Effective date of IAS 34 (1998)
1 January 2009 Effective date of consequential amendments arising from IAS 1 (2007)
6 May 2010 IAS 34 amended for Annual Improvements to IFRSs 2010
1 January 2011 Effective date of May 2010 amendment to IAS 34 Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets). Click for More Information
17 May 2012 Effective date of May 2012 amendments (Annual Improvements 2009-2011 Cycle)
1 January 2013
IAS 34 Interim Financial Reporting

IAS 34 definition

“The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity’s capacity to generate earnings and cash flows and its financial condition and liquidity.”

“An interim financial report is a financial report that contains either a complete or condensed set of financial statements for a period shorter than an entity’s full financial year.”

“The interim notes include primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date.”

Source www.ifrs.org

IAS 34 objective and scope

objectives:
- to prescribe the minimum content of IR, including disclosures
- to identify the recognition and measurement principles to be applied

scope of application and frequency:
No mandatory indications:
Standard does not address how often nor how soon after the period entities should produce interim reports
(IASB leaves the choice to national jurisdiction; however, listed companies are encouraged to present IR (par. 1.b)

anyone who reads an entity’s interim report will also have access to its most recent annual report
Complete set of FS (IAS 1)
(a) balance sheet;
(b) income statement;
(c) statement showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
(d) cash flow statement; and
(e) accounting policies and explanatory notes.

Condensed set of FS (IAS 34)
(a) condensed balance sheet;
(b) condensed income statement;
(c) condensed statement showing either (i) all changes in equity or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
(d) condensed cash flow statement; and
(e) selected explanatory notes.

Minimum requirements mandated by the standard:

- Minimum components of an interim financial report
- Selected explanatory notes
- Disclosure of compliance with IFRSs
- Recognition and measurement
- Periods for which interim financial statements are required to be presented and comparative data
- Materiality

+ List of Appendixes
**IAS 34 Interim Financial Reporting**

### Minimum components:
- Condensed balance sheet
- Condensed income statement
- Condensed statement of changes in equity
- Condensed cash flow statement

### Selected explanatory notes:
- Accounting policies
  - statement that they are the same as in most recent annual FS
  - if changes ⇒ description and disclosure
- Compliance with IFRS
- Comments on seasonality or cyclicality
- Nature and amount of
  - unusual items (IAS 8)
  - changes in estimates

Relevant notes unchanged from the annual report:
- Not included
- Repetitive
- Can obscure the new and more relevant information

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**Recognition and measurement**

**Same accounting policies as annual**

- entity is required to use the same accounting policies as in the year-end statements
- no smoothing of income and expenses
  - recognition of assets, liabilities, income and expenses in accordance with the Framework and applicable Standards
- measurement on a year-to-date basis (frequency of reporting should not affect measurement of annual results)
IAS 34 Interim Financial Reporting

Comparability in time: Comparative data

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>Interim Period Examined</th>
<th>Comparative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data of interim period</td>
<td>Data of last financial year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of Profit or Loss and Other Comprehensive Income</th>
<th>Interim Period Examined</th>
<th>Comparative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data of interim period</td>
<td>Data of last financial year</td>
</tr>
<tr>
<td></td>
<td>Cumulative data for the current financial year to the end of interim period</td>
<td>Data of the comparable last previous interim period and cumulative data last financial year-end of interim period</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of Changes in Equity</th>
<th>Interim Period Examined</th>
<th>Comparative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative data for the current financial year to the end of interim period</td>
<td>Data of the comparable last previous interim period</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of Cash Flow</th>
<th>Interim Period Examined</th>
<th>Comparative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative data for the current financial year to the end of interim period</td>
<td>Data of the comparable last previous interim period</td>
</tr>
</tbody>
</table>

Materiality

IAS 34 notes that materiality for interim statements should be assessed based on the interim period.

Note that interim financial statements may have additional estimates.

IAS 34 provides a detailed list of items of the Financial Statements, for which a simplified evaluation is allowed (Appendix C).
IAS 34 Interim Financial Reporting

**Reliability** (qualitative characteristic of the IASC Framework)

**Discrete approach**
- Reduced use of estimation process

**Integral approach**
- Forecasting process

Reliability and verifiability of accounting information

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EU Regulations and Directives on Interim Reporting

**1982:** European Directive n. 82/121/CEE: first mandatory periodic information disclosure

**1978 and 1983:** Process of harmonization:
- Directive IV on the Financial Statements of the company
- Directive VII on Consolidated Accounts

**2002:** European Regulation n. 1606/2002 so called “IAS Regulation”
- Obligation (since 2005) for listed companies (which prepare consolidated Financial Statements), to be IAS/IFRS compliant in the preparation of Financial Statements

- Harmonization of transparency requirements
- and following modifications proposed by European Commission draft proposal (2011)
Italian Regulatory legislation on Financial Statement dates back to 1942, with the promulgation of the Civil Code (still in force)

1974: establishment of CONSOB Commissione Nazionale per le Società e la Borsa (supervision of Italian listed companies)

Institutional role

Italian Interim reporting governed by a complex regulatory framework:

- Rules of the Civil Code;
- Legislative Decree n. 56 (Testo Unico della Finanza);
- Rules and communications enacted by CONSOB;
- Guidelines indicated by accounting principle OIC 30

Current national regulation is affected by EU IAS Regulation. CONSOB requires:
- half-year reports prepared according IASB approach (IAS 34);
- quarterly reports

Accounting principles contained inside OIC 30, strictly influenced by IAS 34

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A comparison of IAS 34 and OIC 30: Examples of peculiar cases

<table>
<thead>
<tr>
<th>peculiar cases: denomination</th>
<th>peculiar cases: valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIC 30</td>
<td>IAS 34</td>
</tr>
<tr>
<td>Costi di ricerca e sviluppo</td>
<td>Other Planned but Irregularly Occurring Costs</td>
</tr>
<tr>
<td>Costi di manutenzione</td>
<td>Major Planned Periodic Maintenance or Overhaul</td>
</tr>
<tr>
<td>Premi di fine anno</td>
<td>Year-End Bonuses</td>
</tr>
<tr>
<td>Ammortamento delle immobilizzazioni</td>
<td>Depreciation and Amortisation</td>
</tr>
<tr>
<td>Valutazione delle rimanenze di magazzino</td>
<td>Inventories</td>
</tr>
<tr>
<td>Imposte sul reddito</td>
<td>Measuring Interim Income Tax Expense</td>
</tr>
</tbody>
</table>

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Example: TOD’S GROUP IR

TOD’S Group 2013 Half Year Report

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Siena, 2013 December 16th
### Consolidated Income Statement

<table>
<thead>
<tr>
<th></th>
<th>H1 13</th>
<th>H1 12</th>
<th>FY 12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenues</td>
<td>499,245</td>
<td>482,456</td>
<td>985,132</td>
</tr>
<tr>
<td>Other revenues and income</td>
<td>4,736</td>
<td>6,695</td>
<td>22,060</td>
</tr>
<tr>
<td><strong>Total revenues and income</strong></td>
<td>495,981</td>
<td>489,151</td>
<td>985,192</td>
</tr>
<tr>
<td><strong>Operating Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in inventories of work in process and finished goods</td>
<td>15,464</td>
<td>26,316</td>
<td>33,456</td>
</tr>
<tr>
<td>Cost of raw materials, supplies and materials for consumption</td>
<td>(1,99,049)</td>
<td>(145,043)</td>
<td>(280,779)</td>
</tr>
<tr>
<td><strong>Costs for services</strong></td>
<td>(1,03,673)</td>
<td>(129,876)</td>
<td>(226,940)</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>455,312</td>
<td>453,275</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>455,312</td>
<td>453,275</td>
<td></td>
</tr>
<tr>
<td><strong>Profit before taxes</strong></td>
<td>(52,063)</td>
<td>(29,930)</td>
<td>(61,980)</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>(52,063)</td>
<td>(29,930)</td>
<td>(61,980)</td>
</tr>
<tr>
<td><strong>Consolidated profit</strong></td>
<td>75,955</td>
<td>74,070</td>
<td>145,733</td>
</tr>
<tr>
<td><strong>Minority interests</strong></td>
<td>(278)</td>
<td>245</td>
<td>176</td>
</tr>
<tr>
<td><strong>Net Profit of the group</strong></td>
<td>75,772</td>
<td>74,325</td>
<td>145,863</td>
</tr>
</tbody>
</table>

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Siena, 2013 December 16th

### Consolidated Financial Position

<table>
<thead>
<tr>
<th></th>
<th>06.30.13</th>
<th>12.31.12</th>
<th>06.30.12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non current assets</strong></td>
<td>21,312</td>
<td>21,312</td>
<td>21,312</td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Assets with indefinite useful life</td>
<td>149,466</td>
<td>149,466</td>
<td>149,024</td>
</tr>
<tr>
<td>Key money</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>12</td>
<td>28,417</td>
<td>28,051</td>
</tr>
<tr>
<td>Others</td>
<td>16,920</td>
<td>13,940</td>
<td>14,316</td>
</tr>
<tr>
<td>Cash</td>
<td>14</td>
<td>173,080</td>
<td>168,909</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>633,167</td>
<td>620,892</td>
<td>608,219</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,085,092</td>
<td>1,072,943</td>
<td>1,063,622</td>
</tr>
<tr>
<td><strong>Bank</strong></td>
<td>13</td>
<td>28,804</td>
<td>32,565</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>233,618</td>
<td>210,404</td>
<td>269,670</td>
</tr>
<tr>
<td><strong>Total Equity and liabilities</strong></td>
<td>1,085,092</td>
<td>1,072,943</td>
<td>1,063,422</td>
</tr>
</tbody>
</table>

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Explanatory notes: Basis of preparation

The half-year Financial Report, which includes the half-year condensed financial statements of TOD’S Group at June 30th, 2013, has been prepared in accordance with Article 154 ter (2, 3 and 4) of the Consolidated Law on Financial Intermediaries (“TOD’S”), introduced by Legislative Decree 195/2007 (in Implementation of Directive 2004/109/EC (the “Transparency” Directive). The half-year condensed financial statements comply with IAS 34 – Interim Financial Reporting, adopted according to the procedure envisaged in Article 6 of EC Regulation no. 1606/2002. Consequently, it does not include all the information required for the annual report and must be read together with the annual report prepared for the financial year at December 31st 2012.

The half-year condensed financial statements include the half-year condensed financial statements of TOD’S S.p.A. and its Italian and foreign subsidiaries, together identified as TOD’S Group, drafted with the reference date of June 30th, 2013 (January 1st – June 30th).

The half-year condensed financial statements (profit and loss account, comprehensive income, Consolidated Statement of Financial position, Consolidated Statement of Cash Flows, and Consolidated statement of changes in equity) were drafted in the long form and are the same as those used for the consolidated financial statements at December 31st, 2012.

As envisaged in IAS 34, the notes to the financial statements were drafted in summary form and refer only to the components of the profit and loss account, Statement of Financial position, and Statement of Cash Flows, whose composition or change in amount or nature was significant. Thus, they illustrate additional information for accurate comprehension of Group’s financial position at June 30th, 2013.

Explanatory notes: Accounting policies

- IAS 34 – Interim Financial Reporting and Segment Information for Total Segment Assets (Amendment): the amendment clarifies the requirements set out in IAS 34 concerning segment information, in view of improving consistency with the requirements imposed under IFRS 8 – Segment Reporting. It is necessary to give information on the total assets and liabilities for a presented segment only when the amounts are regularly provided to the highest operating decision-maker level, and there has been a material change in the total amount presented in the previous annual consolidated financial statements of the entity for the specific segment being reported. The amendment has had no impact on the condensed consolidated interim financial statements of the Group (for details on segment information, please see Note 7).

- IAS 19 [2011] – Employee Benefits (IAS 19R): The revised version of IAS 19 includes certain changes to the accounting of defined benefit plans, including actuarial gains and losses, which are now recognised as part of other comprehensive income and are permanently excluded from profit or loss. The excess yields of the plan assets are no longer recognised in equity, but are reflected in the cost of services.
Explanatory notes: Estimates and assumptions

Estimates and assumptions. Preparation of the financial figures reported on the half-year condensed financial statements entails making estimates and assumptions based on the management’s best valuation. Estimates and assumptions are reviewed regularly. If these estimates and assumptions should change in future from the actual circumstances, they will obviously be modified for the period in which those circumstances changed.

Specifically with regard to determination of eventual impairment losses affecting fixed assets, complete tests are performed only when the annual report is prepared. When all information as might be necessary are available, unless there are indications that require immediate valuation of eventual impairment losses or the occurrence of events that required restatement of the procedure. The analyses carried out at this reporting date have not revealed any impairment indicators.

Explanatory notes: Seasonality and Significant events

4. Seasonal or cyclical nature of interim transactions

TOD’S Group engages in a business that, despite the effects related to monthly differences in the flows of revenues and costs generated by its industrial activity over the course of the year, it does not manifest significant seasonal or cyclical changes in overall annual sales.

18. Significant events occurred after the reporting period

In July 2013, the Group implemented the corporate restructuring plan for the ROGER VIVIER brand through the holding company Partecipazioni Internazionali S.r.l., by incorporating the companies Roger Vivier HK Limited and Roger Vivier Singapore Pte Ltd. The activities related to the ROGER VIVIER brand in the respective assigned areas have been delegated to these companies in their assigned areas.
Observations and conclusions

- Usefulness of IR recognized (timely and promptly information)
- Relevant issue of frequency in term of:
  - Reliability of results;
  - Costs for the company
- No international uniform preparation:
  - frequency and form are still left to national jurisdiction
  - comparability both in time and space is difficult
- Costs vs benefits
- IAS 34 indications are enough for all industries?
- …and what about all those no-listed companies?

THANK YOU FOR YOUR ATTENTION!

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