

To the Point

FASB – proposed guidance

FASB proposes modifying the disclosure requirements for interim financial reporting

Some stakeholders had asked the Board to clarify the interim reporting requirements and consolidate them into one topic in the Codification.

What you need to know

- ▶ The FASB proposed amending ASC 270 to require entities to make disclosures at interim periods when a significant event or transaction that has a material effect on an entity has occurred since the prior year-end.
- ▶ The proposal would clarify (1) the form and content of interim financial statements and notes in accordance with US GAAP and (2) when comparative disclosures are required.
- ▶ The amendments would be applied prospectively by all entities that provide interim financial statements and notes in accordance with US GAAP.
- ▶ Comments are due by 31 January 2022.

Overview

The Financial Accounting Standards Board (FASB or Board) **proposed** amendments¹ to Accounting Standards Codification (ASC or Codification) 270, *Interim Reporting*, that would require disclosure at interim periods when a significant event or transaction that has a material effect on an entity has occurred since the prior year-end.

The proposal would also clarify (1) the form and content of interim financial statements and notes in accordance with US GAAP and (2) when comparative disclosures are required.

The proposal was issued as part of the FASB's disclosure framework project, which seeks to improve the effectiveness of disclosures in notes to financial statements by facilitating clear communication of the information that is most important to users of financial statements.

Certain proposed amendments address stakeholders' feedback requesting that interim reporting requirements be clarified and consolidated into one topic of the Codification.

Key considerations

Disclosure principle

The proposal would introduce a principle that is based on a requirement that the Securities and Exchange Commission (SEC) removed from Regulation S-X, Rule 10-01,² in 2018, when it eliminated requirements that overlapped with US GAAP and other SEC rules.

The proposal also would eliminate the phrase "as a minimum" and add language intended to promote the use of discretion by entities considering interim reporting disclosures. It would clarify that it is appropriate for entities to assess materiality when evaluating disclosure requirements and that assessing which disclosures to provide at interim periods involves considering information provided at the previous annual period.

How we see it

The added language is not intended to change practice for publicly traded companies because it is in large part based on language that was originally part of SEC Regulation S-X, Rule 10-01. Although the Board indicated that it believes few nonpublic entities prepare interim financial statements and notes in accordance with US GAAP, it stated that those that do are likely leveraging SEC requirements for interim reporting; therefore, the proposed amendments are not expected to change practice for those entities.

Form and content of interim financial statements and notes

The proposal would clarify that interim reporting can take the following three forms:

- ▶ Financial statements prepared with the same level of detail as the previous annual statements subject to all the presentation requirements in US GAAP and notes subject to all disclosure requirements in US GAAP
- ▶ Financial statements prepared with the same level of detail as the previous annual statements subject to all the presentation requirements in US GAAP and limited notes subject to the disclosure requirements in ASC 270
- ▶ Condensed financial statements and limited notes subject to the disclosure requirements in ASC 270

The proposal includes guidance on the content of condensed interim financial statements that aligns with SEC requirements for condensing financial statements at interim periods.

Other proposed amendments

The proposal would require that an entity refer a reader of interim financial statements and notes to the previous annual financial statements when it provides condensed financial statements or limited notes. The presumption that a user of interim financial statements and notes will have read the prior annual financial statements and notes should lead entities to not disclose information that would be duplicative of year-end disclosures, even if those requirements are part of the standard disclosure requirements in ASC 270. This could result in entities making fewer disclosures or no disclosures at all for certain items.

The proposal also would require, if applicable, that the reporting entity explain that the interim results are not indicative of the annual results for the year of which it is a part and that adjustments have been made so that the reported results better relate to the results of operations for the annual period.

The amendments in the proposal would state that ASC 270 contains all interim reporting requirements and/or references to interim reporting requirements detailed in other topics.

Language indicating comparative disclosures

The proposal would clarify when comparative disclosures are required and would update various topics to remove phrases such as “for each period presented” and instead refer to making comparative disclosures when comparative statements are presented.

Transition and effective date

The proposal would be applied on a prospective basis. The Board will consider stakeholders’ feedback before determining the effective date and whether early adoption should be permitted.

Endnotes:

¹ Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements*.

² SEC Release No. 33-10532, *Disclosure Update and Simplification*.