

30 November 2015

Ms Nobuhle Makuni
The Department of Trade and Industry
File Reference – FRSC Proposed Financial Reporting Pronouncement on Summarised Financial Statements
Private Bag X 84
Pretoria
0001

Dear Ms Makuni

SAICA SUBMISSION ON THE FINANCIAL REPORTING STANDARDS COUNCILS' (FRSC) PRONOUNCEMENT ON SUMMARISED FINANCIAL STATEMENTS

In response to your request for comments on the FRSC's proposed pronouncement on summarised financial statements (the Pronouncement), attached is the comment letter prepared by the Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations (including entities listed on the Johannesburg Stock Exchange Limited (JSE)), regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments

Yours faithfully,

Kevin Davies
Accounting Practices
Committee

Bongeka Nodada
Project Director – Financial
Reporting Standards

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COMMENTS

We welcome the FRSC's Proposed Financial Reporting Pronouncement on Summarised Financial Statements (the Pronouncement) as we concur that guidance should be provided on the composition of summarised financial statements produced in compliance with Section 29(3) of the Companies Act 2008, No 71 of 2008 (The Companies Act).

We do concur that compliance with IAS 34 – *Interim Financial Reporting* presentation and disclosure requirements is the appropriate basis of preparation of summarised financial statements. Our comments are detailed below and focus on the following areas:

1. Scope of the Pronouncement
2. Basis of preparation of summarised financial statements prepared in terms of International Financial Reporting Standards (IFRS)
3. Basis of preparation of summarised financial statements prepared in terms of IFRS for SMEs
4. References to JSE Listings Requirements
5. References to audit reports
6. Other comments

Prescribed requirements to be used in preparing summarised financial statements should comply with IAS 34 presentation and disclosure requirements in its entirety. Our comments and concerns on specific sections of the Pronouncement have been detailed below along with our proposed recommendations.

1. Scope of the Pronouncement

Scope

As noted in the Appendix to the Pronouncement, the Companies Act permits companies to provide summarised financial statements. We believe that the Pronouncement should clarify which reports are included in the scope of this document.

In addition to preparing annual financial statements in compliance with IFRS and the Companies Act, entities currently present IFRS financial information in a number of other documents and media. These include extracts of financial information included in the integrated report (or sustainability report), extracts of financial information provided to specific users (such as shareholders or lenders) and extracts or financial highlights included on the internet. All of the aforementioned reports include financial information that is extracted from the underlying financial statements. While these represent summarised financial information, they may not represent summarised financial statements as contemplated by the Pronouncement and hence recommend that the FRSC clarify this in the Pronouncement's scope.

We recommend that the scope of the document should reference to the requirements of the Companies Act. Section 62(3)(d)(i) of the Companies Act states that a notice of an annual

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general meeting must include a summarised form of the financial statements to be presented. In all other circumstances, companies presenting summarised financial statements would do so voluntarily.

Therefore, we recommend that the addition of a scope paragraph as follows:

“Scope

The requirements of this Financial Reporting Pronouncement should be applied by entities presenting summarised financial statements in accordance with Section 62(3)(d)(i) of the Companies Act, or presenting financial information that is described as summarised financial statements in accordance with the Companies Act.”

We note that the proposed scope would include all companies presenting summarised financial statements as prescribed by the Companies Act. Entities that currently issue only an integrated report for the annual general meeting would therefore be required to either include summarised financial statements prepared in accordance with the Pronouncement within the integrated report, rather than selected extracts of the annual financial statements. Alternatively, the integrated report may be accompanied with a standalone document being the summarised financial statements. However, the scope would correctly exclude any information that is an extract from the financial statements, but does not claim to represent summarised financial statements in accordance with the Companies Act.

2. Basis of preparation of summarised financial statements prepared in terms of IFRS

While we agree that IAS 34 is the appropriate reference for the preparation of summarised financial statements, we believe that only the presentation and disclosure requirements of IAS 34 are relevant. We do not believe that compliance with the recognition and measurement requirements of IAS 34 is appropriate.

IAS 34 was developed to provide guidance on the preparation of interim financial information. The recognition and measurement requirements may therefore not be relevant for annual periods. We therefore recommend that paragraph 5 of the Pronouncement should be amended as follows: *“If companies elect to issue summarised financial statements, then the summarised financial statements ~~must~~—should, as a minimum, comply with the presentation and disclosure requirements of International Accounting Standard 34 Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board.”*

3. Basis of preparation of summarised financial statements prepared in terms of IFRS for SMEs

Paragraph 8 of the Pronouncement states that any reference in IAS 34 to IFRS should be replaced by the directly comparable requirements in IFRS for SMEs.

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The majority of respondents agreed that the requirements of IAS 34 should be applied to summarised financial statements prepared in terms of IFRS for SMEs. This would be based on the hierarchy described in 10.4 to 10.6 of IFRS for SMEs, which permit, but do not require, reference to IFRS. However, respondents were concerned that a general reference to IAS 34 could result in SMEs being required to present additional information in its summarised financial statements. This would be the case where disclosure is required by IAS 34, but would not be applicable for IFRS for SME's annual financial statements. Therefore, we recommend that entities applying IFRS for SMEs present summarised financial statements in accordance with IAS 34 to the extent that such information is available in the annual financial statements.

A minority of respondents noted that IFRS for SMEs was designed to be standalone framework, with no requirement to apply IFRS where IFRS for SMEs does not contain guidance. These respondents were concerned that the FRSC as the standard-setter would be setting a precedent by requiring reference to IFRS. For entities applying IFRS for SMEs, it was therefore recommended that the FRSC should not require summarised financial statements to be prepared with reference to IFRS or IAS 34. To provide a framework for the preparation of summarised financial statements for such entities, it was recommended that the FRSC should instead require that summarised financial statements for entities applying IFRS for SMEs should comprise a condensed set of primary financial statements, together with relevant explanatory notes.

4. References to the JSE Listings Requirements

Based on our recommendation above, summarised financial statements would be defined as those financial statements required to be presented as summarised financial statements in terms of Section 62(d)(3)(i) of the Companies Act, and financial statements purporting to be summarised financial statements. These reports should comply with the Pronouncement.

The JSE Listings Requirements prescribe certain reporting requirements for listed entities. Should these reports comply with the definition of the summarised financial statements, then they would be required to comply with the Pronouncement. However, should these reports not meet the definition, then they would not be required to comply with the Pronouncement.

We believe that the inclusion of a definition will make this clear. As a result of this, and because the JSE prescribes the information required to be presented by listed entities, we recommend that there should be no specific reference to listed entity reporting.

5. References to audit reports

Section 29(3)(ii) of the Companies Act requires a statement as to whether the financial statements that it summarises have been audited, independently reviewed, or are unaudited.

We believe it was the FRSC's intention to state what the appropriate audit report is, should an audit be required. However, the majority of participants believed that paragraph 7 of the Pronouncement, in combination with BC 19, could be read as:

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- Requiring an audit for information prepared in accordance with the Pronouncement, and
- Introducing uncertainty on whether the summarised financial statements must be audited, or whether the summarised financial information may be based on information that has been audited.

We also note that the Pronouncement refers to ISA 810 – *Engagements to Report on Summary Financial Statements* as the appropriate auditing pronouncement. While we do not disagree with the conclusion, we believe any guidance on the appropriate auditing standards should be provided by the Independent Regulatory Board for Auditors (IRBA), and not by the FRSC.

We therefore suggest the following rewording for paragraph 7:

“Summarised financial statements are based on a complete set of financial statements. If the complete set of financial statements have been audited, then the summarised financial statements should include a statement that they have been audited, any modifications to the audit report and how a copy of the audit report can be obtained.”

6 Other comments

Group and consolidated financial statements

We note that paragraph 4 of the Pronouncement refers to ‘group and consolidated financial statements’. The reference is based on the terminology used in the Companies Act. However, neither IFRS nor IFRS for SMEs distinguish between group and consolidated financial statements. For clarity, we suggest the paragraph 4 be amended to rather refer to ~~group and~~ consolidated financial statements’.

Editorial review

We suggest that the FRSC engage with an independent editorial reviewer on all draft pronouncements to ensure that the use of language and grammar are clear and unambiguous.

Use of consistent terminology

We note that the text of the Pronouncement refers to ‘*summarised financial statements*’, while the Basis for Conclusions refers to both ‘*summarised financial statements*’ and ‘*summarised financial information*’. Whilst we do not believe it was the FRSC’s intention to create different terminology, we believe that the use of the two terms may be misleading.