



FASB proposal

Proposed amendments to interim disclosure requirements

November 3, 2021



FASB proposes to clarify disclosure requirements for interim reporting to promote consistency across entities.

Applicability

Proposed ASU, [Disclosure Framework—Changes to Interim Disclosure Requirements](#)

Applies to all entities that prepare interim financial statements and notes in accordance with US GAAP.

Fast facts, impacts, actions

Topic 270 contains guidance on accounting and disclosure issues specific to interim reporting – i.e. for a period that is shorter than a fiscal year.

To promote more consistent disclosure across entities, the FASB has proposed amendments that would clarify existing interim reporting guidance. The proposed amendments are not intended to substantively change practice.

Specifically, the proposed amendments would:

- provide guidance on the forms interim reporting in accordance with US GAAP can take;
- define the contents of condensed financial statements;
- clarify how entities should apply materiality judgments and introduce to US GAAP a ‘catch-all’ disclosure principle to determine which disclosures to provide at interim periods;
- reorganize and reference all interim reporting requirements into Topic 270.

Action: The proposed ASU would apply to all entities preparing interim financial statements and notes in accordance with US GAAP. Although the FASB does not expect the proposal to significantly change current practice, all entities should carefully consider whether the proposed ASU has unintended consequences.

Stakeholders have until January 31, 2022 to comment on the proposed ASU. The proposed amendments will only become US GAAP if and when the FASB issues a final ASU.

Background

The proposed amendments are part of the FASB's disclosure framework project. They aim to improve financial statement disclosure effectiveness so preparers clearly communicate the information that is most important to financial statement users. The proposals have been developed in consideration of Chapter 8, Notes to the Financial Statements, added to Concepts Statement No. 8 in 2018. The proposals also address the removal by the SEC of language from Regulation S-X Rule 10-01, Interim Financial Statements, which required disclosure about events that have occurred after the end of the most recent fiscal year that have a material effect on the registrant.

Proposed guidance

Forms of interim reporting

The proposed amendments would clarify that Topic 270 applies to all forms of interim reporting in accordance with US GAAP. There are three forms of interim financial statements and notes prepared in accordance with US GAAP.

Form	Financial statements	Notes	Disclosure requirements
a	Complete	Full	Apply all annual disclosure requirements in US GAAP
b	Complete	Limited	Apply Topic 270 disclosure requirements
c	Condensed	Limited	Apply Topic 270 disclosure requirements

Interim reporting also includes interim financial *information* prepared in accordance with US GAAP, without financial statements and notes (e.g. quarterly US GAAP account balances produced for debt covenant purposes).

In addition, the proposed amendments would require:

- entities that prepare either Form b or c interim financial statements and notes to make the previous annual financial statements available to the users of the interim financial statements; and
- all entities to disclose that interim financial statements and notes should be read in conjunction with the previous annual financial statements and notes.

Observation: Private companies will need to carefully evaluate any reporting requirements (e.g. those required under the terms of lending arrangements) to determine whether their interim financial information must be in compliance with US GAAP. In current practice, it may be unclear which accounting principles and reporting practices of US GAAP apply to interim financial information (e.g. recognition and measurement of goodwill impairment at an interim date). Therefore, private companies should consider whether changes would be necessary to comply with the proposed amendments.

Contents of condensed financial statements

The proposed amendments would require all entities to apply the following in presenting their condensed financial statements.

- Captions from an entity's previous annual balance sheet may be combined in the interim balance sheet if the caption both:
 - is less than 10% of total assets; and
 - has not increased or decreased by more than 25% since the end of the preceding fiscal year.

- Captions from an entity’s previous annual statement of comprehensive income may be combined in the interim statement of comprehensive income if the caption both:
 - is less than 15% of average net income for the most recent three fiscal years; and
 - has not increased or decreased by more than 20% as compared with the corresponding interim period of the preceding fiscal year.
- The statement of cash flows may be abbreviated with:
 - a single amount of net cash flows from operating activities; and
 - changes from investing and financing activities only when they exceed 10% of the average of net cash flows from operating activities for the most recent three fiscal years.

Observation: The proposed amendments for preparing condensed financial statements are consistent with Regulation S-X Rule 10-01 and are not expected to change practice for publicly traded companies. However, the proposed amendments may affect the presentation of financial statements for private companies and not-for-profit entities that prepare condensed interim financial statements.

Disclosure principle

The proposed amendments would clarify that interim disclosures include the following.

- Disclosures listed in Topic 270, if material. The assessment of whether disclosures are material on an interim basis considers the extent to which these would duplicate the previous year-end disclosures. It presumes the user of the interim financial statements will have read the previous annual financial statements and notes. The proposed amendments would also eliminate the phrase ‘as a minimum’ from Topic 270 to promote the exercise of judgment when assessing which interim disclosures to provide.
- Significant events or transactions that have a material effect on the entity’s financial statements, even if not explicitly listed in Topic 270. Entities may focus the interim disclosure on those annual disclosure requirements relevant to the significant event or transaction (i.e. not all annual disclosures under those other Topics would need to be included).

Observation: The incorporation in US GAAP of a disclosure principle is based on guidance that was removed from Regulation S-X Rule 10-01 and therefore is not intended to change practice for publicly traded companies. Private companies and not-for-profit entities preparing interim financial statements would use the updated guidance to make materiality judgments when determining required interim disclosures.

Other proposed amendments

The proposed amendments would also:

- locate all interim disclosure requirements in Topic 270;
- clarify throughout the Codification the circumstances when comparative annual disclosures are required versus interim disclosures; and
- require entities to explain that the interim period’s results are not indicative of the annual results and that adjustments have been made to the interim period to provide a more relevant depiction of the entity’s results, if applicable.

Effective dates and transition

The proposed ASU would be applied prospectively.

The FASB will determine the effective date and whether to allow early adoption after considering stakeholder feedback.

Contributing authors

Valérie Boissou, Mike Chmelar

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