

FINANCIAL REPORTING PRONOUNCEMENT 5: SUMMARY FINANCIAL STATEMENTS

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I, Dr Rob Davies, Minister of Trade and Industry, pursuant to the publication of notice 1444 in *Government Gazette* 41338 dated 18 December 2017 for wider public consultation, publish the final notice on Financial Reporting Pronouncement 5. The final notice comes into force on the date of publication.

(signed)

Dr ROB DAVIES, MP
Minister of Trade and Industry
12 February 2018

FINANCIAL REPORTING PRONOUNCEMENT 5

SUMMARY FINANCIAL STATEMENTS

THE FINANCIAL REPORTING STANDARDS COUNCIL

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Preface

Financial Reporting Pronouncement 5 - Summary Financial Statements has been issued by the Minister of Trade and Industries in terms of section 29(4) of the Companies Act 2008, 71 of 2008, to provide guidance on the requirements for preparing summary financial statements which may be provided in terms of section 29(3) of this Act. This pronouncement was prepared by the Financial Reporting Standards Council (FRSC) and was submitted to the Minister to issue as a regulation in terms of section 204 of this Act.

With reference to the Preface to Financial Reporting Pronouncements and Guides issued by the FRSC, the FRSC may issue Financial Reporting Pronouncements (FRPs) to provide authoritative guidance to preparers, auditors and users of financial statements.

Background

1 In terms of section 29(3) of the Companies Act 2008, 71 of 2008 (the Act), a

company may provide any person with a summary of any particular financial statements. This section requires the summary financial statements to comply with certain requirements as specified in the appendix to this Financial Reporting Pronouncement, but other than this does not specify requirements in relation to the form and content of such summary financial statements.

Issues

- 2 As the Act does not specify all the requirements for summary financial statements, this Financial Reporting Pronouncement deals with the following issues:
 - 2.1 What requirements should companies follow in determining what information should be included in summary financial statements, other than that specified in the Act;
 - 2.2 Should the requirements that companies follow be the same for all companies; and
 - 2.3 Should the requirements that companies follow be the same for all types of financial statements?

Consensus

- 3 The requirements of this Financial Reporting Pronouncement apply to all categories of companies, except for those that in terms of the regulations to the Act use financial reporting standards as determined by the company as long as no Financial Reporting Standard is prescribed.
- 4 The requirements of this Financial Reporting Pronouncement only apply to annual financial statements and consolidated financial statements prepared in terms of section 29(3) of the Act. No summary financial statements are to be prepared for other categories of financial statements as defined by the Act.
- 5 Other financial documents not prepared in terms of section 29(3) of the Act, are not required to comply with the requirements of this Pronouncement, even if they termed as summary financial statements, financial information, an extract from annual financial statements or another term. To ensure summary financial statements prepared in terms of section 29(3) of the Act are properly identified, the disclosures required by section 29(3)(b) of the Act to be included on the first page of the summary financial statements are also to include a note that the summary has been prepared in terms of section 29(3) of the Act.
- 6 If companies elect to issue summary financial statements then the summary financial statements are as a minimum to comply with the presentation and disclosure requirements of the International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board.
- 7 A regulator or stock exchange may have its own requirements for financial statements, including summary financial statements. A company is required to comply with the Act's requirements in relation to summary financial statements regardless of these other requirements. For example, a listed company may not be required to send a financial report comprising summary financial statements to its shareholders if this information is the same as that sent to shareholders before the issue of its annual financial statements, but as the financial report would not meet the requirements for summary financial statements a company still needs to send annual financial statements or summary financial statements to its shareholders.
- 8 If an auditor has performed an engagement to report on summary financial statements derived from financial statements, then the summary financial statements are to include an audit report's prepared in accordance with the International Standard on Auditing ISA 810 *Engagements to Report on Summary Financial Statements*, issued by the International Auditing and Assurance Standards Board.
- 9 If companies use International Financial Reporting Standards for Small and

Medium-sized Entities (IFRS for SMEs) for the preparation of financial statements then such companies shall replace any reference in IAS 34 to IFRS to the directly comparable requirements in IFRS for SMEs. This means that the requirements of IAS 34 for a condensed statement of comprehensive income and condensed statement of changes in equity should be replaced with a condensed statement of income and retained earnings in those cases where companies using IFRS for SMEs are allowed to provide a single statement of income and retained earnings. The disclosure requirements contained in IAS 34 are to be complied with to the extent that such disclosures are required by IFRS for SMEs in annual financial statements. This also means the references in IAS 34 to earnings per share and segment information would not apply to companies using IFRS for SMEs.

Effective date

- 10 A company shall apply this Financial Reporting Pronouncement with effect for annual periods beginning on or after 1 January 2018. Earlier application is encouraged.

Appendix

Section 29(3) of the Companies Act 2008, 71 of 2008 contains the following requirements in relation to summary financial statements:

- '(3) A company may provide any person with a summary of any particular financial statements, but-*
- (a) any such summary must comply with any prescribed requirements; and*
 - (b) the first page of the summary must bear a prominent notice-*
 - (i) stating that it is a summary of particular financial statements prepared by the company, and setting out the date of those statements;*
 - (ii) stating whether the financial statements that it summarises have been audited, independently reviewed, or are unaudited, as contemplated in subsection (1)(e);*
 - (iii) stating the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of, the financial statements that it summarises; and*
 - (iv) setting out the steps required to obtain a copy of the financial statements that it summarises.'*

Basis of conclusion

Whether requirements should be issued

- BC1 While the Act requires summary financial statements to comply with '*any prescribed requirements*', this is interpreted as meaning that if no requirements are prescribed then it would be difficult to argue that any published summary financial statements would not be in compliance with the Act, if the other requirements of the Act are complied with. Thus prescribed requirements are not required to be issued in terms of the Act and accordingly companies can issue summary financial statements even if no prescribed requirements have been issued.
- BC2 However, it is believed it would be desirable for requirements to be issued to ensure that the same minimum requirements are complied with by companies. This would ensure that a user of the summary financial statements would be able to determine what to expect regarding the form and content of summary financial statements, as well as enabling a user to ascertain whether all the required information has been provided. The issuing of requirements assists to ensure that companies know what is expected regarding the form and content of summary financial statements, as it appears that some companies have asked for this information, as well as providing more detail concerning requirements not specified in the Act.

BC3 In addition, such requirements promote sound and consistent accounting practices.

Which accounting standards should be used

BC4 In the absence of any specified requirements it needs to be considered what guidance, if any, companies would use for preparing summary financial statements. It is likely that companies would use International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) issued by the International Accounting Standards Board as appropriate guidance.

BC5 With IAS 34 being used for reporting for an interim period, which is defined as '*a financial reporting period shorter than a full financial year*' it would appear that it is not appropriate guidance for an annual period, but IAS 34 has been used in South Africa by listed companies for full financial years.

BC6 A local stock exchange has required or allowed companies to prepare various financial reports that as a minimum were to contain the information required by IAS 34, even though they covered an annual period. Such reports include those termed as condensed or summary financial statements.

BC7 Accordingly South African listed companies have used IAS 34 to report on annual information and have been accustomed to using the word 'summary' in relation to information prepared in accordance with IAS 34.

BC8 As listed companies have already using IAS 34 to provide annual summary information to shareholders, it is believed it would be appropriate to allow them to continue to report in a largely unchanged manner, as there does not appear to be significant concerns regarding providing summary financial statements in terms of IAS 34. This would mean that the summary financial statements would present the same information as contained in the other financial reports sent to shareholders before the issue of the annual financial statements or summary financial statements if there was no change in the information between their respective dates of issue and there would be little need to provide different or additional information or information in a different format, which is an approach that companies would want to avoid.

BC9 The International Accounting Standards Board has no other guidance applicable to summary financial statements and thus if IAS 34 was not used, guidance would have to be specifically developed. As any such guidance would take some time to develop and because IAS 34 appears to meet the needs of users of financial statements wanting summary financial statements, it is believed that companies should use IAS 34 as a basis to prepare summary financial statements. If a user wants additional information they can exercise their right to obtain a copy of the full set of financial statements.

Which companies the requirements should apply to

BC10 While the Act provides for different standards to be applicable to profit and non-profit companies as well as for different categories of profit companies, it is believed the requirements should provide for the same requirements to apply to all companies, except as dealt with below.

BC11 The reason for this is that it is possible that listed companies may make more use of the option to provide summary financial statements than unlisted companies as their annual reports are commonly longer than those of unlisted companies and thus there might be less of a demand for guidance for unlisted companies. In addition, it is believed that unlisted companies can apply the requirements of IAS 34 without undue cost or effort and that it is appropriate for unlisted companies to also have guidance which they should use. With a possible lesser demand for guidance for unlisted companies it is believed that the effort involved in preparing, producing and maintaining separate guidance for such companies would not be cost effective.

BC12 While the regulations to the Act presently still refer to South African Generally Accepted Accounting Practice (SA GAAP) as a basis that companies can use to

prepare annual financial statements, the Financial Reporting Standards Council previously announced its use ceased for annual periods commencing on or after 1 December 2012. Accordingly, there is no need for guidance on summary financial statements to refer to SA GAAP.

BC13 Certain companies may use International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) to prepare annual financial statements, but it does not provide guidance for the preparation of interim reports. It is believed that such companies could also use the presentation and disclosure requirements of IAS 34 to prepare summary financial statements. The one area where clarity should be provided is that IFRS for SMEs allows companies, in certain circumstances, to combine the statement of comprehensive income and statement of changes in equity into a single statement of income and retained earnings. In this case the requirements of IAS 34 for a condensed statement of comprehensive income and condensed statement of changes in equity should be replaced with a condensed statement of income and retained earnings. As IAS 34 may require disclosures not required by IFRS for SMEs, companies using IFRS for SMEs would not be required to provide these additional disclosures.

BC14 In terms of the regulations to the Companies Act certain companies may use financial reporting standards as determined by the company as long as no financial reporting standard is prescribed. At present no financial reporting standards have been specified for such companies and as such it is believed that the requirements for summary financial statements should not apply to such companies.

Which financial statements the requirements should apply to

BC15 Section 1 of the Act defines financial statements as including-

- '(a) annual financial statements and provisional annual financial statements;*
- (b) interim or preliminary reports;*
- (c) group and consolidated financial statements in the case of a group of companies; and*
- (d) financial information in a circular, prospectus or provisional announcement of results, that an actual or prospective creditor or holder of the company's securities, or the Commission, Panel or other regulatory authority, may reasonably be expected to rely on.'*

BC16 Some of the items included in this definition, such as provisional, interim or preliminary reports and financial information in a circular, prospectus or provisional announcement may already be summary financial statements.

BC17 Accordingly it is believed that summary financial statements should only apply to financial statements that would normally be made available to shareholders in an unabridged form and which might be summarised. Therefore, summary financial statements should only apply to annual financial statements and consolidated financial statements. International Financial Reporting Standards and the Act do not define group financial statements, but colloquially it is an alternate term for consolidated financial statements.

BC18 Listed companies, in terms of stock exchange requirements, may not be required to publish financial reports if, for example, the information contained in their financial report published before the annual financial statements are published is unchanged. This, however, would not alter the requirement for such companies to provide summary financial statements to its shareholders if such an election is made. The reasons for this are as follows:

18.1 The previously issued report is typically issued before the annual financial statements are issued and thus would not have contained all the information required by section 29(3)(b) of the Act; and

18.2 Those who are shareholders at the time the summary financial statements are issued may not have been shareholders when the previously issued report was issued.

BC19 Companies may issue various financial reports, either for distribution to shareholders or for specific parties (eg bankers or potential acquirers). These may be termed by various names, including integrated reports, summary financial statements or extracts from annual financial statements. These financial reports are excluded from the scope of this pronouncement if they are not prepared in terms of section 29(3) of the Act. To ensure summary financial statements prepared in terms of this section of the Act are properly identified, they are to contain a note that they have been prepared in terms of section 29(3) of the Act.

Requirements where financial statements have been audited

BC20 If the credibility of the summary financial statements is to be enhanced by a company engaging its auditor to examine these financial statements, the summary financial statements should contain a report from the company's auditors as to whether the summary financial statements derived from the audited financial statements are consistent in all material respects with those financial statements in accordance with the International Standard on Auditing 810 – *Engagements to Report on Summary Financial Statements*. At present there is no requirement for summary financial statements to be examined by the company's auditors, but it may elect to do so.

Effective date of requirements

BC21 The issue of when the requirements become effective also needs to be considered. As many companies reporting summary financial statements are already using IAS 34, the requirement to apply IAS 34 is not likely to affect many companies. In addition, other companies should be able to apply IAS 34 without undue cost and effort and would not require an extensive notice period. Therefore, it is believed that companies be given at least three months' notice to comply with the requirements, but allowing companies to apply the requirements earlier if they so wish.

Approval by the Financial Reporting Standards Council (FRSC) of the financial reporting pronouncement on summary financial statements

The Financial Reporting Pronouncement on Summary Financial Statements was approved by the requisite majority of members of the FRSC on 15 April 2016.