

Periodic reporting requirements

The EU Transparency Directive

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PRICEWATERHOUSECOOPERS 

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Introduction

The Transparency Directive (TD) stems from the 'Implementing the framework for financial markets: Action Plan' published by the European Commission in 1999. This communication identified a series of legislative actions needed in order to deliver components of a single European capital market.

The objective of the TD is to achieve greater harmonisation within the member states relating to the provision of periodic and ongoing information requirements for securities' issuers. In the view of the European Commission, this should lead to 'a high level of investor protection throughout the Community, which would enable barriers to the admission of securities to the regulated markets situated or operating within a member state to be removed'.

A number of member states already had specific regulations relating to periodic and ongoing information requirements for issuers of traded securities. The objective of requiring member states to bring in regulations relating to the TD was not necessarily to add to existing requirements, but to harmonise those requirements.

The initial proposal during the development of the TD was that it would bring full US-style quarterly reporting into the EU. The view of some member states was that this 'US-style' approach has led to both companies and investors adopting a more short-term view of company performance, which is not desirable. Lobbying to have the initial proposals on quarterly reporting removed from the Directive was successful. The proposals were replaced with a requirement for interim management statements (IMS), being a narrative update with minimal specific content requirements.

The objective of this publication is to provide guidance for entities required to implement the TD requirements, relating to quoted companies and focusing on the periodic reporting requirements of the TD. This publication does not cover any other periodic reporting requirements arising from national laws, listing rules or exchange-imposed requirements.

Main consequences of the implementation of the Transparency Directive

The TD supersedes the existing Interim Reporting and Major Shareholdings Directives, as well as setting out requirements in relation to the annual financial report. It also imposes requirements relating to periodic reporting, as follows:

- Annual report – the TD introduces requirements into securities law concerning the annual financial report. Until now this has been a matter of company law, although some member states and exchanges have imposed additional disclosure requirements
- Half-yearly reporting – the TD supercedes the existing Interim Reporting Directive
- Quarterly reporting – the TD imposed limited disclosure requirements in the form of an interim management statement.

Status of implementation

The date set by the EU for transposing the TD into local law was 20 January 2007. Member states will need to determine their local implementation date. It is clear that at the time of writing (July 2007), a number of member states are in the process of implementing the directive.

Unlike other directives such as the Prospectus Directive, the TD is not a 'maximum harmonisation' directive. Member state governments will be able to impose additional requirements above the minimum level envisaged in the directive although only on issuers incorporated in their own country. Exchanges will be able to impose additional requirements on issuers traded on their markets.

Examples of additional disclosure required by individual member states and useful guidance provided by regulators that could be leveraged by others are illustrated in this publication.

However, due to these differences, readers should check with local contacts to determine precise implementation dates and any amendments to the basic TD rules, as well as the differing implementation timetables.

Summary of periodic reporting requirements

Reporting	Timing	Illustrative dates for 1 January 2008 to 31 December 2008 financial year*
Interim management statements (IMS)	Between 10 weeks after the beginning and six weeks before the end of the relevant six month period.	First quarter IMS to be issued between 11 March and 19 May 2008. Third quarter IMS to be issued between 8 September and 19 November 2008.
Half-yearly reports	Two months from half-year date.	To be issued by 31 August 2008.
Annual financial reports	Four months from year-end date.	To be made public by 30 April 2009.

* Implementation dates will vary between member states. The illustrative dates provided in the table above assume the TD rules are effective for years beginning on or after 1 January 2008.

Applies to	Requirements
Companies with ordinary shares listed on regulated market (excludes preference shares and listed debt)	<ul style="list-style-type: none"> • An explanation of material events and transactions (in the relevant period) and their impact on the financial position • A general description of the financial position and performance during the relevant period.
Companies with shares or debt listed on regulated market	<ul style="list-style-type: none"> • A condensed set of financial statements prepared in accordance with applicable accounting standards • Interim management report • An appropriate statement of assurance from persons responsible in the issuer • Publication of any audit report or review report in full.
Companies with shares or debt listed on regulated market.	<ul style="list-style-type: none"> • Audited financial statements prepared in accordance with applicable accounting standards • A management report • An appropriate statement of assurance from persons responsible in the issuer • Audit report.

More information on each of these requirements can be found on the following pages. This publication focuses on the periodic reporting requirements under the TD, which apply to regulated markets.

Interim management statements

The rules for IMSs apply to issuers whose shares (excluding preference shares) are admitted to trading on a regulated market and whose home state is a member state of the EU, as set out below:

TD	Requirements
Article 6 Para 1	<ul style="list-style-type: none"> • An issuer... shall make public a statement by its management during the first six month period of the financial year and another statement by its management during the second six month period • Such statement shall be made in a period between ten weeks after the beginning and six weeks before the end of the relevant six month period • It shall contain information that covers the period between the beginning of the relevant six-month period and the date of publication of the statement.
Article 6 Para 1	<p>Such a statement shall provide:</p> <ul style="list-style-type: none"> • An explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its controlled undertakings, and • A general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period.
Article 6 Para 2	<ul style="list-style-type: none"> • Issuers which, under either national legislation or the rules of the regulated market or of their own initiative, publish quarterly financial reports in accordance with such legislation or rules shall not be required to make public statements by the management provided for in paragraph 1.

Observations

- The directive provides a window of approximately 10 weeks during which an IMS must be published. For companies in most industries, our expectation is that any financial data included in an IMS will cover either the first-quarter results or the cumulative third-quarter results. Some companies in specific industries – for example, retail companies – might choose a different period – for example, the Christmas trading period – if traditionally this period has been reported on.
- While any financial data will cover a period prior to publication of the IMS, any material events or transactions up to the date of publication must be covered in the narrative.
- There is a limited information disclosure obligation on issuers between the annual report and half-year report.
- There is no specific requirement for numerical data; issuers may be able to meet the requirements through narrative explanation. This may be difficult to achieve without the inclusion of selected key operating statistics – however, this does not mean the inclusion of a condensed quarterly income statements.
- By way of illustration, a retail company might provide, some or all of the following information:
 - **Material events and transactions**, such as: refinancing; acquisitions or disposals; opening of new distribution centres or new stores; adoption of a new strategy, such as exiting or entering markets.
 - Narrative around **performance**, incorporating key operating statistics, such as: percentage change in total sales by segment; percentage change in like-for-like sales by segment. Some companies might opt to give more extensive disclosures, such as: progress against announced store opening, conversions to new formats; deflation or inflation in the supply chain, for example, due to higher energy costs; extension of product range; number of customers served.
 - Narrative around **financial position**, such as: adequacy of financing in place to service acquisition plans or major store refurbishment plans; adequacy of working capital.
- Issuers that chose to report quarterly in accordance with a recognised framework are exempt from publishing IMSs. In some territories, such as Italy, there are currently rules requiring full quarterly reporting.

Half-yearly financial reports

The rules for half-yearly reports apply to issuers of shares or debt* securities (this excludes debt with a denomination of more than €50,000), and whose home state is an EU member state, as set out below:

TD	Requirements
Article 5 Para 1	<ul style="list-style-type: none"> • The issuer of shares or debt securities shall make public a half-yearly financial report covering the first six months of the financial year as soon as possible after the end of the relevant period, but at the latest two months, thereafter • The issuer shall ensure that the half-yearly report remains available to the public for at least five years.
Article 5 Para 2	<p>Half-yearly report shall comprise:</p> <ul style="list-style-type: none"> • A condensed set of financial statements • An interim management report and • Statements made by persons responsible within their issuer.
Article 5 Para 3	<ul style="list-style-type: none"> • Where the issuer is required to prepare consolidated accounts, the condensed set of financial statements shall be prepared in accordance with EU-adopted IAS 34. <p>Where the issuer is not required to prepare consolidated accounts, the condensed set of financial statements shall at least contain:</p> <ul style="list-style-type: none"> • A condensed balance sheet • A condensed profit and loss account and • Explanatory notes on these accounts. <p>In preparing the condensed balance sheet and the condensed profit and loss account, the issuer shall follow the same principles for recognising and measuring as when preparing annual financial reports.</p>

* Home Member States may provide for exemptions from half-yearly reporting by issuers of debt securities in the case of:

- (i) Credit institutions acting as small-size issuers of debt securities; or
- (ii) Issuers already existing on the date of entry into force of the TD who exclusively issue debt securities unconditionally and irrevocably guaranteed by the home Member State or by one of its regional or local authorities; or
- (iii) During a transitional period of ten years, only in respect of these debt securities admitted to trading on a requested market prior to 1 January 2005 which may be purchased by professional investors only. If such an exemption is given by the home Member State, it may not be extended in respect of any debt securities admitted to a regulated market thereafter.

Observations

For further guidance, see following pages.

The minimum disclosure requirements of IAS 34, Interim Financial Reporting, are quite extensive, in particular in respect of business combinations during the period: companies must disclose information relating to all material acquisitions, disposals, restructurings and discontinued operations. Companies disclosing segmental information in their annual reports must disclose segment revenue and result for their primary segment reporting format (be it business or geographical).

Balance sheet comparatives must be given for the last full financial year as well as for the comparative interim period. Income statement comparatives must be given for the comparative interim period, but comparatives for the last full financial year are not required. In addition IAS 34 requires the presentation of a statement of changes in equity and a cash flow statement both with comparatives for the comparative interim period.

Illustrative half-yearly financial statements prepared in accordance with IAS 34 can be obtained from your local PwC office or online at www.pwc.com/ifrs. *Illustrative condensed consolidated financial information: For existing preparers.*

Half-yearly financial reports (continued)

TD	Requirements
Article 5 Para 4	<p>The Interim management report shall include at least:</p> <ul style="list-style-type: none"> • An indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; together with • A description of the principal risks and uncertainties for the remaining six months of the financial year; and • For issuers of shares the interim management report shall also include major related party transactions.
Article 5 Para 5	<ul style="list-style-type: none"> • If the half-yearly financial report has been audited, the audit report shall be reproduced in full. The same shall apply in the case of an auditors' review • If the half-yearly financial report has not been audited or reviewed by auditors, the issuer shall make a statement to this effect in its report.
Article 5 Para 2(c)	<p>The statements made by the persons responsible within the issuer:</p> <ul style="list-style-type: none"> • Whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge; • The condensed set of financial statements which has been prepared in accordance with the applicable set of accounting standards gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required under paragraph 3; and • That the interim management report includes a fair review of the information under paragraph 4 (namely the management report).

* EU-adopted IAS 34 is required under the TD for all issuers required to prepare consolidated accounts. Those not required to prepare consolidated accounts, must follow pronouncements on interim reporting issued by a national accounting standard-setter. In the UK, for example, the Financial Services Authority has taken the same approach with regard to responsibility statements for these issuers. That is, directors can satisfy the requirement to confirm

Observations

- Expectation is that the types of events covered would be similar to those addressed in the IMS.
- The requirement to provide a description of principal risks is similar to that currently in the Fourth and Seventh Company Law Directives (the Accounting Directives) as updated by the Modernisation Directive. While no detailed guidance exists as to what constitutes 'principal risks', we can look to views expressed by the national standard-setters relating to the annual report requirement to describe principal risks. The UK Accounting Standards Board stresses that the key word is 'principal'. We believe this is a sensible approach for any company. Therefore, the management report should include a description of those risks that directors focus on, rather than undifferentiated statements about risks in general. Those risks that appear as simply boilerplate summaries of the risk environment are not considered principal risks.
- IAS 24, Related Party Disclosures, applies at year end and requires extensive disclosure, even where related party transactions are regular in pattern and at arm's length. The interim disclosures, focus on major related-party transactions. Furthermore, IAS 34, paragraph 17, includes in its examples related-party transaction disclosures, thereby reinforcing this TD requirement.

- If the responsibility statement is provided collectively by the board, the statement should cross-refer to where the reader can obtain information with regard to the names and functions of each of the board members. If there have been no changes since the publication of the latest annual report, the responsibility statement could cross-refer to the appropriate page numbers in the latest annual report.
- As the condensed set of financial statements contained in a half-yearly report need to be prepared in accordance with EU adopted IAS 34*, the Financial Services Authority in the UK has determined that directors can satisfy the requirement to confirm the consolidated financial statements gives a **true and fair view**, by including a statement that those financial statements have been prepared in accordance with IAS 34. It is our view that this is a sensible way to articulate the responsibility statement, as such a statement is explicit about the basis of preparation – i.e. IAS 34.

that the financial statements gives a **true and fair view** by including a statement that those financial statements have been prepared in accordance with the pronouncements on interim reporting issued by the [named] national standard-setter.

Annual reports

The rules for annual financial statements apply to issuers whose transferable securities (including any class of shares and debt) are admitted to trading on a regulated market and whose home state is a member state of the EU, as set out below:

TD	Requirements
Article 4 Para 1	<ul style="list-style-type: none"> • The issuer shall make public its annual financial report at the latest four months after the end of each financial year and • Shall ensure that it remains publicly available for at least five years.
Article 4 Para 2	<p>Annual financial report shall comprise:</p> <ul style="list-style-type: none"> • The audited financial statements • The management report and • Responsibility statements.
Article 4 Para 3	<ul style="list-style-type: none"> • Consolidated accounts required to be prepared in accordance with EU-adopted IFRS • Single entity accounts must be prepared in accordance with the national law of the EEA state in which the issuer is incorporated.
Article 4 Para 4	<p>The audit report, signed by the person or persons responsible for auditing the financial statements, shall be disclosed in full to the public together with the annual financial report.</p>
Article 4 Para 5	<p>Management report* shall include at least:</p> <ul style="list-style-type: none"> • A fair review of the issuer's business and a description of the principal risks and uncertainties facing the issuer • Review shall be a balanced and comprehensive analysis of the development and performance of the business and the position of the issuer's business at the end of the year, consistent with size and complexity of the business • To the extent necessary, analysis using financial key performance indicators and other key performance indicators including information relating to environmental matters and employee matters • References to and additional explanations of amounts included in the issuer's annual financial statements.

* The requirements for a 'management report' stem from the Accounting Directives, as updated by the Accounts Modernisation Directive. The requirements set out above can be found in Article 46 of the Fourth Directive and Article 36 of the Seventh Directive.

Observations

For further observations relating to management reports and responsibility statements, see the following pages.

Illustrative financial statements prepared in accordance with IFRS are available from your local PwC office or online at www.pwc.com/ifrs

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- *Guide to key performance indicators.*
- *Report leadership.*

The guides can be found at: www.corporatereporting.com

Annual reports (continued)

TD	Requirements
	<p>Shall also give an indication of:</p> <ul style="list-style-type: none">• Important events that have occurred since the end of the year• The issuer's likely future development• Activities in the field of research and development• Information concerning acquisition of own shares• Existence of branches• Where material – financial risk management objectives and hedging policies and• Issuer's exposure to price risk, credit risk, liquidity and cash flow risk.
Article 4, Para 2(c)	<p>Statements to the best of their knowledge made by the persons responsible within the issuer:</p> <ul style="list-style-type: none">• Whose names and functions shall be clearly indicated to the effect that• The financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and• That the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Observations

- As noted in relation to half-yearly responsibility statements, if the responsibility statement is provided collectively by the board, the statement should cross-refer to where the reader can obtain information with regard to the names and functions of each of the board members. The year-end responsibility statement should cross-refer to the appropriate page numbers in the annual report.

Notes

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Adopting IFRS – A step-by-step illustration of the transition to IFRS

Applying IFRS – Finding the right solution (available on Comperio 1)

Audit Committees – Good Practices for Meeting Market Expectations

Building the European Capital Market – Common Principles for a Capital Market

Financial instruments under IFRS

IAS 39 – Achieving hedge accounting in practice

IFRS Disclosure Checklist 2006

IFRS Measurement Checklist 2006

IFRS News – Shedding light on the IASB's activities

IFRS Pocket Guide 2006

IFRS Survey: The European investors' view

Illustrative condensed consolidated interim financial information for existing IFRS preparers

Illustrative Consolidated Financial Statements 2006 – Banks

Illustrative Consolidated Financial Statements 2006 – Insurance

Illustrative Consolidated Financial Statements 2006 – Investment Property

Illustrative Corporate Consolidated Financial Statements 2006

Illustrative Financial Statements 2006 – Investment Funds

Illustrative Interim Consolidated Financial Statements 2005 – For first-time adopters of IFRS

Impact of improvements, amendments and new standards for continuing users of IFRS

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SIC-12 and FIN 46 R – The substance of control

Similarities and Differences – A comparison of IFRS and US GAAP

Understanding IAS 29 – Financial Reporting in Hyperinflationary Economies

World Watch – Governance and Corporate Reporting

These publications and the latest news on IFRS can be found at www.pwc.com/ifrs

¹Comperio can be purchased from the website – www.pwccomperio.com

Contacting PricewaterhouseCoopers

Please contact your local PricewaterhouseCoopers office to discuss how we can help you make the change to International Financial Reporting Standards or with technical queries. See inside back cover for further details of IFRS products and services.

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