



Project	Agenda decision
Topic	IAS 1 <i>Presentation of Financial Statements</i> – Going concern disclosure

Introduction

1. In May 2010, the Committee published a tentative agenda decision not to add to its agenda a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern.
2. The request is to enhance the disclosure requirements in IAS 1 so that they will provide a clearer link between disclosures about material uncertainties resulting from management's assessment in the financial statements and the effects that these material uncertainties may have to the entity's ability to continue as a going concern.
3. The Committee concluded that the agenda criteria were not met, because IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and that it does not expect diversity in practice to develop.
4. Three comment letters¹ were received. One comment letter was on the due process of the Committee and did not discuss technical aspects of the tentative decision. The second comment letter agreed with the tentative agenda decision

¹ Deloitte Touche Tohmatsu, Dutch Accounting Standards Board and the Canadian Accounting Standards Board.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

made by the Committee. The third comment letter disagreed with the tentative decision. It disagrees with the tentative decision for the following reasons:

- (a) That the fair representation principle should not be relied upon to clarify or promote the consistent application of a requirement.
- (b) That although issuing an agenda decision may clarify the disclosure requirements, agenda decisions are not authoritative guidance.
- (c) That the staff conclusion that divergent interpretations may not develop as ‘auditing standards generally require the auditor to ensure similar disclosures exist when necessary’ may not be correct for all jurisdictions.
- (d) That that auditing standards should not be relied on to require accounting disclosures.
- (e) That clarifying the going concern disclosure requirement will not add a new rule to the standard.

5. The respondent recommends the Committee to propose that the Board amend paragraph 25 of IAS 1 as follows (suggested added text is underlined):

“...When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties and identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern. ...”

6. If the Committee does not support making this amendment, the respondent thinks the Committee should revise its tentative agenda decision to refer specifically to the fair presentation principle. The comment letter states:

As drafted, the tentative agenda decision implicitly relies on the fair presentation principle by making a general statement that IAS 1 provides sufficient guidance. If the Committee is of the view that the fair presentation principle in paragraph 17(c) of IAS 1 should be applied in this manner, we recommend that the agenda decision explicitly refer to that presentation principle. Such a reference would reinforce the need for entities to disclose enough information for users to understand the possible effect of uncertainties that may cast significant doubt upon their ability to continue as a going concern.

IASB Staff paper

7. In response to the comments included in the third comment letter, the staff note that all of concerns raised by the respondent were discussed and considered by the Committee in the May meeting.
8. As a result, the staff does not recommend any changes to the tentative agenda decision.

Staff recommendation and proposed wording of the final agenda decision

1. The staff recommends that the Committee finalise its tentative agenda decision not to add the issue to its agenda. Does the Committee agree with the recommendation?
2. Appendix A includes the staff's proposed wording for the final agenda decision which is unchanged from the published tentative agenda decision. Does the Committee agree with proposed wording?

Appendix A – Proposed wording for agenda decision

IAS 1 Financial Statement Presentation — Going concern disclosure

The Committee received a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern.

How an entity applies the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgement. The Committee noted that paragraph 25 requires that an entity shall disclose 'material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern'. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern.

The Committee noted that IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and that it does not expect diversity in practice. Therefore, the Committee {decided} not to add the issue to its agenda.

Mr Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@iasb.org

14 June 2010

Dear Mr Garnett,

Tentative agenda decision: IAS 1 *Financial Statement Presentation* — Going concern disclosure

Deloitte Touche Tohmatsu is pleased to respond to the IFRIC's publication in the May 2010 IFRIC Update of the tentative decision not to take onto the IFRIC's agenda a request for an Interpretation of IAS 1 *Financial Statement Presentation* with respect to uncertainties related to an entity's ability to continue as a going concern.

We agree with the IFRIC's decision not to take this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,



Veronica Poole
Global IFRS Leader - Technical

June 14, 2010

IFRS Interpretations Committee

30 Cannon Street,

London EC4M 6XH

United Kingdom

Dear Sirs,

IAS 1 Financial Statement Presentation – Going concern disclosure

This letter is the response of the staff of the Canadian Accounting Standards Board to the IFRS Interpretation Committee’s tentative agenda decision on IAS 1 *Financial Statement Presentation – Going concern disclosure*. This agenda item was considered by the Committee in May 2010.

We discussed the tentative agenda decision and solicited comments from individual members of the Canadian Accounting Standards Board and its IFRS Discussion Group. The views expressed in this letter take their comments into account. However, they do not represent a common view of the Canadian Accounting Standards Board, the IFRS Discussion Group or staff. Views of the Canadian Accounting Standards Board are developed only through due process.

We agree with the Committee’s views expressed in the tentative agenda decision as follows:

“How an entity applies the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgement. The Committee noted that paragraph 25 requires that an entity shall disclose ‘material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern’. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity’s ability to continue as a going concern.”

However, we disagree with the Committee’s tentative decision to not add this issue to its agenda and the reasons for that decision. We disagree for the following reasons:

- (a) We think the fair presentation principle should not be relied on to clarify or promote the consistent interpretation of a requirement. Paragraph 16 of the IASB staff paper to the May 2010 Committee meeting states that “if an entity thinks that the disclosures required by paragraph 25 of IAS 1 are not sufficiently clear on the link between the uncertainties and the going concern assumption then this connection must at least be demonstrated to comply with paragraph 17(c) of IAS 1”. That latter paragraph requires an entity “to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions ...”
The fair presentation principle is the final test or double check to ensure that financial statements, after applying all other IFRS requirements, faithfully represent the financial position, financial performance and cash flows of the entity to users. Therefore, we think that relying on the fair presentation principle demonstrates that the going concern disclosure requirements can be interpreted differently and need improvement.

- (b) We think that the Committee’s view in the agenda decision clarifies the going concern disclosure requirements by specifying that an entity must identify that the disclosed uncertainties may cast significant doubt on the ability of the entity to continue as a going concern. However, as the Committee’s agenda decisions are not authoritative guidance, entities could continue to interpret the going concern disclosure requirements narrowly and disclose uncertainties without linking those uncertainties to the ability to continue as a going concern. Therefore, we think that the going concern disclosure requirements should be amended to provide authoritative guidance specifying this interpretation.

- (c) We disagree with staff’s reliance on the fact that “auditing standards generally require the auditor ensure similar disclosures exist when necessary” to determine whether divergent interpretations may exist (paragraph 20(b) of IASB staff paper). International Standards on Auditing have been adopted in over 100 jurisdictions and have likely reduced divergence in disclosure practices. In jurisdictions applying national auditing standards, similar auditing

requirements about going concern may not exist. Therefore, the assessment of whether divergent interpretation of the going concern disclosure requirements occur or may occur in all jurisdictions that apply IFRSs should be assessed only on the merits of the IFRSs.

- (d) We think that accounting standards should not rely on disclosure requirements in auditing standards to achieve consistent application. As going concern disclosures are always a contentious issue between auditors and financial statement preparers, we think clarification of the going concern disclosure requirements in the accounting standards is needed. Otherwise, auditors will be forced to require entities to comply with auditing rather than accounting standards.
- (e) We do not think that clarifying the going concern disclosure requirements will result in adding a new rule to the standard. We agree that any amendment should not specify the words an entity must disclose. Instead, an amendment should clarify the objective of the going concern disclosure requirements to enable entities to use their professional judgement to determine how to achieve that objective given their specific circumstances.

We are also concerned that financial statement users have said they have difficulty differentiating uncertainties that cast significant doubt on an entity's ability to continue as a going concern from uncertainties that do not cast such doubt. If users cannot distinguish going concern disclosures from disclosures about other risks or uncertainties that can be very similar, users will not understand the implications for the entity of the going concern uncertainties. Disclosures about other uncertainties or risks that can appear similar to disclosures about going concern uncertainties include information about estimation uncertainty, and credit and liquidity risk of financial instruments.

If disclosures within a single entity's financial statements are difficult to distinguish, the ability of users to compare going concern uncertainties between entities becomes even more challenging. If an entity does not explain the possibly significant impact of uncertainties on its ability to continue as a going concern, the disclosure of those uncertainties could be similar to the disclosures another entity provides to comply with the other IFRS requirements about

estimation uncertainty and risks that do not cast significant doubt on that entity's ability to continue as a going concern. However, each entity's financial statements provide clear disclosures that meet the respective requirements of IFRS given its specific circumstances. Therefore, we think that the standard needs to make explicit the requirement to communicate the link between the disclosed uncertainties and the entity's ability to continue as a going concern.

Therefore, to reduce divergent practices based on IFRS requirements, enhance comparability and require disclosures to inform users of the possible effect of these uncertainties, we recommend that the Committee reconsider its decision. Given current economic circumstances, we recommend that the Committee address this issue immediately by including it in the 2010 Annual Improvements Exposure Draft. Paragraph 25 of IAS 1 could be amended to include the wording from the tentative agenda decision as follows:

“...When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties and identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern. ...”

Further, we think that the IAASB's specific disclosures about an entity's ability to continue as a going concern and the FASB's project on going concern are indicative of a need to improve IAS 1 in this respect. We also think it would be highly desirable to align the IFRS going concern disclosure requirements with those in US GAAP. Therefore, we urge the Committee to recommend that the IASB and FASB include this issue in their current joint project on financial statement presentation that will replace IAS 1.

However, if the Committee does not support our view that IAS 1 should be amended now, we recommend that the agenda decision be revised to refer specifically to the fair presentation principle. As drafted, the tentative agenda decision implicitly relies on the fair presentation principle by making a general statement that IAS 1 provides sufficient guidance. If the Committee is of the view that the fair presentation principle in paragraph 17(c) of IAS 1 should be applied in this manner, we recommend that the agenda decision explicitly refer to that presentation principle. Such a reference would reinforce the need for entities to disclose enough

information for users to understand the possible effect of uncertainties that may cast significant doubt upon their ability to continue as a going concern.

We would be pleased to elaborate on any of our comments in more detail if you require. If so, please contact Kathryn Ingram, Principal Accounting Standards at +1 416 204-3475 (e-mail kathryn.ingram@cica.ca) or Rebecca Villmann, Principal Accounting Standards at +1 416 204-3464 (e-mail rebecca.villmann@cica.ca).

Yours truly,



Peter Martin, CA
Director
Accounting Standards