Project **IAS 1 *Financial Statement Presentation***

Topic **Going concern disclosure**

Purpose of this paper

1. The purpose of this paper is to document the staff analysis and recommendations relating to a request on whether the disclosures required by IAS 1 *Financial Statement Presentation* on 'material uncertainties related to events or conditions that may cast a significant doubt upon the entity's ability to continue as a going concern' should be enhanced.

2. As such, this paper:

   (a) provides background information on this issue;

   (b) analyses the alternatives;

   (c) provides Committee agenda criteria assessment;

   (d) provides a staff recommendation; and

   (e) asks questions of the Committee.

Background information

3. In March 2010, a request was received to consider an issue on going concern disclosure requirements in IAS 1. The request notes that this may be accomplished with: the issue of a limited amendment, the issue of an Interpretation or adding this to the 2009-2011 cycle of *Annual Improvements*.

4. 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 financials statements and the effects that these material uncertainties may have to the entity's ability to continue as a going concern.

5. The requestor identified instances where diversity exists in practice. The request states, in part:

> …. the issue identified appears to affect a number of reporting issuers who disclose material uncertainties related to their operations. In certain instances, the material uncertainties cast significant doubt as to an entity's ability to continue as a going concern, whereas in other instances the disclosed uncertainties do not cast significant doubt. Absent specific disclosure requirements that would require an entity to clearly indicate that such uncertainties have been assessed by management as those that may cast significant doubt upon the entity's ability to continue as a going concern, it would appear difficult for readers to differentiate between these instances.

6. The submission identifies one view and the staff have identified another view, that are relevant to this request:

   (a) **View 1 –**a specific disclosure requirement should be added that would require an entity to clearly indicate that uncertainties that have been assessed by management may cast significant doubt upon the entity's ability to continue as a going concern.

   (b) **View 2 –**the current disclosure requirements on going concern in IAS 1 if appropriately applied should communicate the link between the uncertainties assessed by management and the entity's ability to continue as a going concern.

7. The full text of the submission is included as Appendix C.

Staff analysis

Current literature

8. Paragraph 25 in IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. Paragraph 25 of IAS 1 states:

> **When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. 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. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.**

View 1 – clarified disclosures required

9. Therefore, according to view 1, if material uncertainties exist, management's responsibilities under IAS 1 are limited to disclosing such uncertainties. According to view 1, management is not required to disclose that they believe such uncertainties may cast significant doubt upon the entity's ability to continue as a going concern, explain why those uncertainties cast significant doubt, or provide any further disclosure related to its assessment. Therefore in the absence of specific disclosure requirements it may be difficult for a reader to identify whether management believes the disclosed uncertainties:

    (a) may cast significant doubt upon the entity's ability to continue as a going concern;

    (b) have just been provided as general disclosure on uncertainties; or

    (c) have been disclosed for other purposes.

10. In addition advocates of view 1 point out that requirements in International Standard on Auditing (ISA) 570, *Going concern*, appear to require more specific disclosures in the financial statements than found in paragraph 25 of IAS 1. Similarly, ISA 570 requires auditors to determine whether such disclosure requirements have been adequately met. These requirements can be found in paragraphs 18 and 19 of ISA 570 that state:

> **Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists**

> 18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
>
> (a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
>
> (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)
>
> 19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:
>
> (a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and
>
> (b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18.

11. As these more detailed requirements are contained in an auditing standard rather than in the accounting literature itself, advocates of view 1 believe this could result in some of the responsibility for the disclosures shifting to the auditor to ensure that they have been provided versus the disclosures being a clear responsibility of management.

12. Therefore advocates of view 1 say that additional disclosures should be required relating to going concern. These additional disclosures should clearly show that:

    (a) management believes that uncertainties related to going concern considerations may cast significant doubt on the entity's ability to continue as a going concern; and

    (b) why management believes these uncertainties create a significant doubt.

View 2 – current disclosures are sufficient

13. Paragraph 25 of IAS 1 is the only guidance on going concern disclosure requirements. However, according to advocates of view 2, the requirement in paragraph 25 should be taken as a broad disclosure requirement. Advocates of view 2 believe that a narrow interpretation of paragraph 25 of IAS 1 is not consistent with the general requirements of IFRSs to present fairly a complete set of financial statements.

14. The requirement in paragraph 25 of IAS 1 is to disclose uncertainties related to going concern assessments. Therefore if the disclosure is to be considered useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern. As this is a disclosure requirement on going concern it is difficult to see how not linking the uncertainties to the going concern assumption can provide a fair presentation in accordance with paragraph 15 of IAS 1.

15. Additionally paragraph 17 (c) of IAS 1 requires an entity 'to provide additional disclosures when compliance with specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions'. Therefore supporters of view 2 would say 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.

16. Based on the above argument and the fact that the disclosure of uncertainties required in paragraph 25 of IAS 1 is directly related to the going concern assumptions, the disclosure should provide the necessary information to enable users of financial statements to understand the connection between them. Supporters of view 2 would therefore say that the current disclosure requirement sufficiently communicates the uncertainties related to going concern assumptions.

US GAAP considerations

17. US GAAP currently does not include guidance on going concern issues. US Generally Accepted Auditing Standards (US GAAS) includes guidance in the AICPA Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures, Section 341, 'The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,' and states that the auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited. This evaluation is based on knowledge of relevant conditions and events obtained from the auditing procedures performed during a financial statement audit.

18. The FASB currently has a going concern project on its agenda. The FASB issued an exposure draft *Going Concern* in October 2008 and plans to issue a final statement in the third quarter of 2010. The objectives of the FASB project are to:

> …… incorporate into FASB literature guidance on (1) the preparation of financial statements as a going concern and an entity's responsibility to evaluate its ability to continue as a going concern (2) disclosure requirements when financial statements are not prepared on a going concern basis and when there is substantial doubt as to an entity's ability to continue as a going concern, and (3) the adoption and application of the liquidation basis of accounting.

19. A more detailed description of the tentative decisions that the FASB has made has been included as Appendix B to this agenda paper.

Committee agenda criteria assessment

20. The staff's assessment of the Committee agenda criteria is as follows:

    (a) *Is the issue widespread and practical?*

    Yes. In the current economic environment, the going concern issue is likely to be widespread.

(b) *Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?*

No. The staff is not aware of significantly divergent interpretations in emerging or current practice. This is based, in part, because IFRSs require the fair presentation of financial statements. Additionally, auditing standards generally require the auditor ensure similar disclosures exist when necessary.

(c) *Would financial reporting be improved through elimination of the diversity?*

Not applicable, as divergent interpretations do not appear to be emerging or currently exist in practice.

(d) *Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?*

Yes. In the staff's opinion, this issue is sufficiently narrow in scope to be capable of interpretation by the Committee.

(e) *It is probable that the IFRIC will be able to reach a consensus on the issue on a timely basis?*

Yes. As this is a very narrow issue and probable that the Committee would be able to reach a consensus on whether to clarify disclosure requirements on going concern.

(f) *If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?*

Yes. This issue impacts IAS 1. The Board currently has an active *Financial Statement Presentation* project to replace IAS 1. However, the staff do not believe the FSP project intends to address this specific issue of going concern disclosure requirements.

Staff recommendation

21. Based on the assessment of the agenda criteria, the staff recommend that the Committee does not add this issue to its agenda. Additionally, the staff recommend that this issue not be added to Annual Improvements. In the staff's

opinion, IAS 1 currently provides sufficient guidance on the issue of going concern disclosure requirements.

Questions for the Committee

22. The staff request the Committee answer the following questions:

Questions for the Committee
1. Does the Committee agree with the staff's recommendation not to add this issue to its agenda? 2. Does the Committee agree with the staff's recommendation not to recommend the Board add this issue to Annual Improvements? 3. Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix A?

Appendix A – Proposed tentative agenda decision wording

A1. The Staff proposes the following wording for the **tentative** 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.
>
> The Committee noted that paragraph 25 of IAS 1 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'.
>
> How an entity applies the disclosure requirements in paragraph 25 requires the exercise of judgement. IAS 1 also requires 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 Committee does not expect diversity in practice in application of the guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern. Therefore, the Committee [decided] not to add the issue to its agenda.

Appendix B – Tentative decisions by the FASB in their *Going Concern* project

B1. The FASB has made the following tentative decision in their *Going Concern* project, which have been obtained from the project page on the FASB website.

The Board made the following decisions about management's going concern assessment:

The Board decided not to specifically define a going concern. Instead, the Board decided to require the following disclosures when management, applying commercially reasonable business judgment, is aware of conditions and events that indicate, based on current facts and circumstances, that it is reasonably foreseeable that an entity may not be able to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, issuance of equity, externally or internally forced revisions of its operations, or similar actions.

(a) Pertinent conditions and events giving rise to the assessment, including when such conditions and events are anticipated to occur, if reasonably estimable
(b) The possible effects of those conditions and events
(c) Possible discontinuance of operations
(d) Management's evaluation of the significance of those conditions and events and any mitigating factors
(e) Management's plans to mitigate the effects of the conditions and events, whether those plans can be effectively implemented, and the likelihood that such plans will mitigate the adverse effects.
(f) Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

The Board decided to provide the following principles-based guidance on the adoption and application of the liquidation basis of accounting.

(a) An entity should prepare financial statements on the going concern basis unless liquidation is imminent. Liquidation is imminent if (a) a plan of liquidation has been approved by the entity's owners or (b) the plan to liquidate is being imposed by other forces and it is remote that the entity will become a going concern in the future. If liquidation is imminent, an entity's financial statements shall be prepared on a liquidation basis.
(b) Liquidation basis financial statements should reflect relevant information about the value of an entity's resources and obligations in liquidation. Such financial statements should consist of a "Statement of Net Assets in Liquidation" and a "Statement of Changes in Net Assets in Liquidation." An entity that applies the liquidation basis of accounting should measure the items in its financial statements to reflect the actual amount of cash that the entity expects to collect or pay during the course of liquidation. This measurement should include, but is not limited to, recognition of (a) costs to dispose of assets or liabilities and (b) expense and income to be incurred through liquidation. The measurement bases and significant assumptions used should be disclosed.

Appendix C – Agenda request

C1. The staff received the following IFRIC agenda request. All information has been copied without modification by the staff, except for details which would identify the submitter of the request.

Going Concern Disclosure

Dear David [Tweedie]

[personal introduction to David Tweedie]

The immediate technical question

The [country] Board has set up an IFRS Discussion Group of people experienced in the implementation of IFRS in [country]. The Group meets in public to consider implementation/ application questions that have arisen in practice and to provide advice to the Board on whether the issues should be submitted to the IFRIC, the AIP or the IASB for consideration. Our intention is to help our constituents develop a better appreciation of how to apply IFRS in practice and to promote consistent application, while avoiding any appearance that the Board is proving interpretations of IFRS.

One of the issues discussed at our meeting last week was submitted by [group member]. A complete description of the issue and the difficulties it is causing in the market are set out in the meeting agenda paper I have attached.

In summary, this is the technical issue. IAS 1 requires an entity to disclose uncertainties that cast significant doubt on its ability to continue as a going concern. However, IAS 1 does not require the entity to specifically identify them as going concern uncertainties. In contrast, International Standards on Auditing (which have been adopted as [country] Auditing Standards) require disclosure that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In addition, ISA 570 requires the auditor to ensure that the disclosure it requires is provided in the financial statements or to provide it in his report. The FASB's October 2008 Exposure Draft to move US guidance on going concern into the accounting standards from the auditing literature proposed more extensive disclosure than either IAS 1 or ISA 570. It has not yet been finalized.

As a result of their reviews of continuous disclosure documents, the [country] securities regulators are concerned that material uncertainties are not being clearly identified as either business risks or potential going concern problems. They believe that at a minimum, the disclosures specified by the auditing standard should be required. You will note in the paper that the UK Financial Reporting Council has published guidance on reporting going concern issues that acknowledges the limitation of the disclosure obligation in IAS 1. In the absence of requirements in IAS 1, our regulators may also feel the need to issue additional guidance to [country] public companies. I think this would be most unfortunate.

The proposed immediate technical answer

Consequently, I'm requesting that at a minimum this issue be included in the 2010 Annual Improvements Exposure Draft. However, in accordance with standard practice, issues included in that ED will not be effective until years commencing on or after 1 January 2012. The need for going concern disclosures is by no means over in [country] and probably many other IFRS jurisdictions. Therefore, this may be one of the rare instances in which the Board wants to issue a relatively small amendment urgently. Our analysis concluded that making the disclosure mandatory would require an amendment to IAS 1. We also believe that this is the preferable solution as it would mean that the clear requirement would be in the standard itself, rather than in another piece of guidance. However, obviously it would also be satisfactory if the Board and the IFRIC concluded that the IFRIC should issue an Interpretation.

The longer term strategic issue

Our Discussion Group members and I are very concerned that accounting disclosure requirements were essentially imposed in an auditing standard. The basic rationale for the FASB issuing its ED was to direct the accounting guidance about the going concern assumption specifically to management. I know that you and the IASB maintain an on-going liaison with the IAASB. I am surprised that, if the IAASB did not consider the IAS 1 disclosure requirements sufficient, they did not request the IASB to improve them. The philosophical question about the appropriate location of disclosure requirements might be a useful topic for discussion when you next meet with [individual].

The other question is obviously having the same disclosure requirements on this important issue in IFRS and US GAAP. Although the FASB ED was motivated in part by a desire to align with IFRS on some issues relating to the going concern assessment, we think it would be highly desirable for the disclosure requirements to be aligned as well.

Thank you for considering this question. If you need any other information, please let me know.

IAS 1: Going Concern Disclosure

Purpose

1. IAS 1 *Presentation of Financial Statements* requires management to disclose material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. This data sheet considers whether additional disclosures should be required related to going concern considerations:

   (a) that management believes the uncertainties may cast significant doubt upon the entity's ability to continue as a going concern; and

   (b) why the uncertainties create significant doubt.

The Issue

1. Paragraph .25 in IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. When management is aware 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 is required to disclose those uncertainties. There is no requirement, however for an entity to specifically disclose that management believes the uncertainties may cast significant doubt upon the entity's ability to continue as a going concern and no requirement for management to explain <u>why</u> the uncertainties cast significant doubt. Absent specific disclosure requirements, it may be difficult for a reader to identify whether <u>management believes</u> disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern, or have been provided as general disclosure on uncertainties, or for other purposes.

Analysis of the Relevant Literature

IFRS and [country] GAAP

2. IAS 1.25 requires management to make an assessment of an entity's ability to continue as a going concern. If management is aware 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"*. If material uncertainties exist, management's responsibilities under IAS 1 are limited to disclosing such uncertainties; however management is not required to disclose that they believe such uncertainties may cast significant doubt upon the entity's ability to continue as a going concern, explain why those uncertainties cast significant doubt, or provide any further disclosure related to its assessment.

3. [National accounting standard] provides the existing [country] GAAP guidance related to going-concern and is largely converged with IAS 1 as discussed above.

US GAAP

4. The FASB issued an exposure draft in October 2008, on the preparation of financial statements as a going concern, management's responsibility to evaluate a reporting entity's ability to continue as a going concern, and certain required disclosures when either financial statements are not prepared on a going concern basis or when there is substantial doubt as to an entity's ability to continue as a going concern.

5. Prior to the issuance of the ED, guidance on going concern assessment was found in US GAAS AU 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, which has also been adopted by the PCAOB. The FASB believes that accounting guidance about the going concern assumption should be directed specifically to management and therefore issued the ED to bring this guidance into US GAAP. The ED largely carries forward the going concern guidance from AU 341, subject to several modifications to align with IFRS such as:

   (a) Harmonizing the time horizon from IAS 1 for the going concern assessment which is at least, but not limited to twelve months from the end of the reporting period (the time horizon in AU 341 for this assessment was limited to one year),

   (b) Aligning the requirements for the type of information that should be considered in making the going concern assessment (all available information about the future) as well as requiring an entity to disclose when it does not present financial statements on a going concern basis.

6. Both AU 341 and the ED contain disclosures when there is substantial doubt as to an entity's ability to continue as a going concern. The ED states the following:

   7. When management is aware, in making its assessment, of material uncertainties about events or conditions that may cast substantial doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. <u>In particular, the entity shall disclose information that enables users of the financial statements to understand:</u>

   a. <u>Pertinent conditions and events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern</u>
   b. <u>The possible effects of those conditions and events</u>
   c. <u>Management's evaluation of the significance of those conditions and events and any mitigating factors</u>
   d. <u>Possible discontinuance of operations</u>
   e. <u>Management's plans to mitigate the effect of the uncertainties and whether management's plans alleviate the substantial doubt about its ability to continue as a going concern</u>
   f. <u>Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.</u>

   (Note that items a. – f. underlined above are not currently included in IAS 1.25 / [accounting standard]; these items are in the US guidance only.)

7. The disclosure items in paragraph 7 in the ED were taken from AU 341:

> *10. When, after considering management's plans, the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the possible effects on the financial statements and the adequacy of the related disclosure. Some of the information that might be disclosed includes—*
>
> - *Pertinent conditions and events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.*
> - *The possible effects of such conditions and events.*
> - *Management's evaluation of the significance of those conditions and events and any mitigating factors.*
> - *Possible discontinuance of operations.*
> - *Management's plans (including relevant prospective financial information).*
> - *Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.*

8. It would appear that the disclosure elements in AU 341 and in the FASB ED are additional to the required disclosures in IFRS and [country] GAAP, and would provide useful information. However, these additional disclosures do not require an entity to explicitly identify that management believes there is a material uncertainty that may cast significant doubt on an entity's ability to continue as a going concern.

9. As per the project update posted on the FASB's website as of February 1, 2010, the last meetings of the FASB Board to discuss the ED were on January 13, 2010 and June 30, 2009. At those meetings, the following decisions were made regarding the ED:

   (a) the ED should provide guidance that defines a going concern and to clarify that the time period for the going concern assessment is not a bright-line 12 months, but also is not intended to be an indefinite look-forward period.

   (b) The ED should clarify the disclosure requirements related to management's going concern assessment

[Country] Auditing Standards

10. [Country] Auditing Standards ([national auditing standard]), *Going Concern* provides guidance when an auditor concludes that the use of the going concern assumption is appropriate, but a material uncertainty exists. As International Standards on Auditing (ISAs) are being adopted in [country], [national auditing standard] is equivalent to ISA 570:

> *18. If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:*
>
> *(a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and*
>
> *(b) Disclose clearly that <u>there is</u>* [emphasis added] *a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.*

19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

(a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to

(b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18.

11. [National auditing standard] appears to require that the auditor ensure the financial statements clearly disclose that the material uncertainty(ies) may cast significant doubt on the entity's ability to continue as a going concern. [National auditing standard] also appears to require expanded and more specific disclosures in the financial statements than found in IAS 1.25 and requires auditors to determine whether such disclosure requirements have been adequately met. Similar to US standards, these expanded disclosures as required under [national auditing standard] could provide clarity to readers and make the connection between management's disclosure of uncertainties and its assessment of the entity's ability to continue as a going concern. However, as they are contained in the auditing standards rather than in the accounting literature itself, this could result in some of the responsibility for the disclosures shifting to the auditor to ensure that they have been provided versus being a clear responsibility of management.

12. A related issue is unaudited financial statements (e.g. unaudited interim financial statements), where the [national auditing standards] would not have been applied. In such instances, going concern disclosure requirements would be limited to those contained in IAS 1 only.

13. In addition to the required financial statement disclosures, [national auditing standard] requires an auditor to include an Emphasis of Matter paragraph in the auditor's report which would further draw a reader's attention to material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern:

A21. The following is an illustration of an Emphasis of Matter paragraph when the auditor issatisfied as to the adequacy of the note disclosure:

Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

UK Financial Reporting Council

14. In October 2009, the UK's Financial Reporting Council published *Going Concern and Liquidity Risks: Guidance for Directors of UK Companies 2009*[1], the purpose of which was to provide guidance on the requirements of company law, accounting standards and the listing rules within their jurisdiction on going concern and liquidity risk for UK companies and to provide assistance on their application. This publication acknowledges the limitations of the disclosure obligation under IAS 1, as well as the connection to the auditing standard:

> *65. The FRSSE*[2] [footnote added], *FRS 18*[3][footnote added] *"Accounting policies" and IAS 1 all require directors to disclose the existence and nature of the uncertainties where they have concluded that there are "material uncertainties that may cast significant doubt upon the entity's ability to continue as a going concern".*
>
> *66. The FRSSE, FRS 18 and IAS 1 do not specify that this precise phrase must be used. However, when preparing their financial statements directors will wish to bear in mind <u>the need for the disclosures to be clear</u>* [emphasis added] *about them having identified a material uncertainty that has led to significant doubt about going concern. They will also wish to bear in mind the <u>obligation on the auditor to report if that level of clarity has not been achieved</u>* [emphasis added] *in the words that have been used, and made clear that the company may be unable to realise its assets and discharge its liabilities in the normal course of business.*

Question – Issue description
Do [group] members believe that there are sufficient disclosure requirements in IAS 1 in relation to going concern considerations? Specifically, should expanded disclosures be required similar to what is outlined in [national auditing standard] ? Should an entity be required to clearly identify that disclosed uncertainties resulting from management's assessment are ones that management believes may cast significant doubt about the entity's ability to continue as a going concern? Are [group] members concerned with disclosure requirements/expectations in IAS 1 that differ from those in which the auditor is required to ensure are provided? Should this matter be recommended to the [body] for referral to IFRIC? What other courses of action should be considered?

[1] http://www.frc.org.uk/images/uploaded/documents/Going%20concern%20and%20liquidity%20risk%20-%20guidance%20for%20directors%20of%20uk%20companies%20094.pdf

[2] Financial Reporting Standards for Smaller Entities, as issued by the UK's Accounting Standards Board of the Financial Reporting Council.

[3] Financial Reporting Standard (FRS) 18, *Accounting Policies* as issued by the UK's Accounting Standards Board of the Financial Reporting Council

IFRIC Criteria

1. *Is the issue widespread and practical?*

Based on reviews of disclosures in the [country] capital markets, the issue identified appears to affect a number of reporting issuers who disclose material uncertainties related to their operations. In certain instances, the material uncertainties cast significant doubt as to an entity's ability to continue as a going concern, whereas in other instances the disclosed uncertainties do not cast significant doubt. Absent specific disclosure requirements that would require an entity to clearly indicate that such uncertainties have been assessed by management as those that may cast significant doubt upon the entity's ability to continue as a going concern, it would appear difficult for readers to differentiate between these instances.

2. *Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?*

There appears to be diversity in practice in the level and extent of disclosure provided by entities when management is aware of material uncertainties that may cast significant doubt upon the entity's ability to continue as a going concern. As noted in the above analysis, US standards currently require greater disclosures than required under IFRS and [country] GAAP and the [national auditing standards] also appear to impose a greater level of disclosure than in the accounting literature.

3. *Would financial reporting be improved through elimination of the diversity?*

Financial reporting would be improved if additional disclosures regarding the appropriateness of the going concern assumption were explicitly required in IFRS and [country] GAAP when management is aware of material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern. As discussed above, the current disclosure requirements may result in an entity disclosing material uncertainties, however *the disclosure may not be clear* and may not specifically point out to a reader of the financial statements that management believes the uncertainties may cast significant doubt about the entity's ability to continue as a going concern.

4. *Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretations process?*

This is limited to a disclosure issue related to going concern considerations and hence is sufficiently narrow to be capable of interpretation by the IFRIC.

5. *If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project? (The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC would require to complete its due process.)*

This issue does not appear to be related to a current or planned IASB project.