

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 18 – 19 June 2012

**Agenda ref 7**

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TOPIC Going concern

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PRESENTER Roger Marshall

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CONTACT Roger Marshall

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

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## **Presentation for June 2012 IFRS Advisory Council meeting**

# IFRS Advisory Council Going concern

19 June 2012  
London

Roger Marshall



## Background

- Panel chaired by Lord Sharman set up to look into going concern
- Stemmed from experiences during credit crunch, particularly in relation to banks
- Wide ranging enquiry, looking at accounting, auditing and governance
- Final report issued 13 June and available on FRC website



## Going concern in financial statements

- Binary decision
- Disclosures where material uncertainties but .....
- Lack of common definitions
- Lack of predictive power
- Are banks special cases?



## Guidance for directors and auditors

- Lack of guidance
- Focus on liquidity rather than solvency
- Stress testing
- No comprehensive reporting of how directors manage going concern risks
- Auditor involvement limited – expectation gap?



## Sharman Recommendations

Overriding aim to encourage the right behaviours

Financial statements – definitions need to be harmonised

However reporting of going concern risks more important

Directors' assessment should be integrated with their reporting of strategy and risks

Solvency and stress testing important

Assumptions need to be prudent



## Recommended process

Business review – Directors should describe risks to going concern and how they are managed

Audit Committee should explain process

Auditors should comment on process and on completeness of reported risks



## Banks

- Business model creates special risks
- Disclosure of central bank support a key issue
- Are banks a special case?
- Sharman recommends no special disclosure where central bank support expected to be repaid
- Sharman rejected arguments that special accounting regime needed for banks
- However certain regulatory reporting should be better integrated with financial reporting



## Next steps

- Dialogue with international bodies
- Changes to UK accounting and auditing standards
- Changes to UK governance requirements

