STAFF PAPER

September 2012

IFRS Interpretations Committee Meeting

Project	IFRS Interpretations Committee Work In Progress		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee (the Interpretations Committee) on the current status of issues that are in progress but that are not to be discussed by the Committee in the **September 2012** meeting.

2. We have split the analysis of the work in progress into three broad categories:

   (a) **ongoing issues:** submissions that the Committee is actively working on but the issue was not presented in this meeting;

   (b) **issues on hold:** submissions that the Interpretations Committee will discuss again at a future meeting but for some reason has decided to temporarily suspend work on the issue, for example, because there is an IASB project that might have a knock-on impact to the Interpretations Committee's discussions; and

   (c) **new issues:** submissions that have been received but have not yet been presented to the Interpretations Committee. Where this is the case, the submission has been attached as an appendix to this paper for information purposes only.

3. The following table summarises the work in progress that will be discussed at a future meeting:

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 3-10	*Business Combinations:* Definition of a business	Request for clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3. More specifically, the question was whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.	At the September 2011 meeting, the Interpretations Committee observed that the difficulty in determining whether an acquisition meets the definition of a business in Appendix A of IFRS 3 is not limited to the acquisition of investment property. The Committee noted that this broader issue goes beyond the scope of its activities and should be addressed by the Board as part of its post-implementation review of IFRS 3. However, the Committee considered it to be useful for the Board's post-implementation review if it contributes to that review its experience and the results from the discussions on this issue. Consequently, the Committee directed the staff to continue their discussions with the staff of the US accounting standard-setter, the Financial Accounting Standards Board, and to continue their outreach to interested parties from other industry sectors with the aim of providing the IASB with relevant information for its post-implementation review.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IFRS 3-10	*Business Combinations:* Definition of a business (cont.)		Currently, we are asking preparers, industry sector groups and the large audit firms what practical difficulties they have encountered when applying/auditing the application of the definition of a business in Appendix A of IFRS 3 (revised 2008) and the related application guidance in paragraphs B7-B12 of IFRS 3 (revised 2008). In the outreach to preparers and industry sector groups we also ask for observations on specific fact patterns. Afterwards we want to discuss the results from our outreach with the staff of the FASB and the Post Implementation Review Team of the Financial Accounting Foundation. We plan to present an analysis of the outreach results and an update on our discussions with the staff of the FASB and the Post Implementation Review Team of the Financial Accounting Review Team of the Financial Accounting Foundation at a future meeting.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 12-11	*Income Taxes:* Recognition of deferred tax for a single asset in a corporate wrapper.	Request for clarification of the calculation of deferred tax in circumstances in which the entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base that was described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset.	At the May 2012 meeting, the Interpretations Committee noted significant diversity in practice in accounting for deferred tax when tax law attributes separate tax bases to the asset inside and the parent's investment in the shares and when each tax base is separately deductible for tax purposes. The Interpretations Committee also noted that the current IAS 12 requires the parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if tax law considers them to be two separate assets and if no specific exceptions in IAS 12 apply. However, considering the concerns raised by commentators in respect of these requirements in the current IAS 12, the Interpretations Committee decided in the May 2012 meeting to not recommend the IASB to address this issue through an Annual Improvement, but instead to explore further options to address this issue that would result in a different accounting for this specific type of transaction. Consequently, the Interpretations Committee directed the staff to analyse whether the requirements of IAS 12 should be amended in response to the concerns raised by commentators. We plan to present this analysis at a meeting.

Ongoing Issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 7-6 IAS 7-7	*Statement of Cash Flows*—Examples illustrating the classification of cash flows	The IASB asked the Interpretations Committee to review requests that it had received in relation to IAS 7 with a view to determining whether it could look collectively at issues that the Committee had recently discussed regarding the classification of cash flows under IAS 7. At the March 2012 meeting the IFRS Interpretations Committee observed that the primary principle behind the classification of cash flows in IAS 7 is that cash flows should be classified in accordance with the nature of the activity in a manner that is most appropriate to the business of the entity, in accordance with the definitions of operating, investing and financing activities in paragraph 6 of IAS 7. The Committee noted that it would use this as a guiding principle when analysing future requests on the classification of cash flows.	At the July 2012 meeting the Interpretations Committee discussed some fact patterns to illustrate the application of the identified primary principle behind the classification of the cash flows in an attempt to consider how to develop further guidance on the application of the primary principle. Those discussions revealed that the existing guidance did not lead to consistent applications of the principle. The Interpretations Committee directed the staff to consider how the description of operating, investing and financing cash flows can be made clearer and thus lead to more consistency in the application of the primary principle. The Interpretations Committee asked the staff to consider the relevance of the counterparty and the timing of the cash flows to their classification. The Interpretations Committee also asked the staff to consider the feedback received through the outreach performed on the Financial Statement Presentation Project (FSP) and also the comments received on the IASB's 2011 agenda consultation that relate to IAS 7. The staff has summarised the feedback received from the FSP project and the comments received from the agenda consultation and has included them in a paper that the staff is currently drafting on this issue. The staff will present the results of this further work at the November 2012 meeting.

Issues on hold			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 2-1	*Inventories:* Long-term prepayments in inventory supply contracts.	Request for clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make prepayments to the supplier. The question is whether the purchaser/supplier should accrete interest on long-term prepayments by recognising interest income/expense, resulting in an increase of the cost of inventories/revenue.	At the January 2012 Interpretations Committee meeting, the Interpretations Committee noted that the Exposure Draft (ED) *Revenue from Contracts with Customers*, published in November 2011, contains requirements regarding the time value of money. Provided that the requirements on the time value of money are not changed in the final revenue standard, this would apply in the seller's financial statements when prepayments are received. The Interpretations Committee observed that the principles regarding accounting for the time value of money in the seller's financial statements are similar to those in the purchaser's financial statements. The Interpretations Committee decided to ask the IASB whether it agrees with the Interpretations Committee's observation, and, if so, whether there should be amendments made in the IFRS literature in order to align the purchaser's accounting with the seller's accounting. At the February IASB meeting, the IASB agreed that a financing component contained in a purchase transaction should be identified and recognised separately. As a result, interest would be accreted on long-term prepayments made in a financing transaction. However, the IASB noted that payments made when entering into a long-term supply contract might include premiums paid for securing supply or for fixing prices. The IASB noted that in such cases, it is not appropriate to accrete interest on these payments. Consequently, the IASB tentatively decided that it should be made clear that the clarifications proposed should only apply to financing transactions, ie transactions in which prepayments are made for assets to be received in the future. The IASB asked the Interpretations Committee to consider addressing the diversity in accounting, not by amending the current literature as part of a separate IASB project, but by clarifying the purchaser's accounting through an interpretation. We will prepare a paper to be presented at the November 2012 IFRS Interpretations Committee meeting, after the IASB has redeliberated on the ED on revenue.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
IAS 32-12	*Financial Instruments: Presentation – Offsetting Financial Assets and Liabilities:* Legal right to set-off	Request for clarification on whether, in order to qualify for balance sheet offsetting, the counterparty (or counterparties) to a netting arrangement is required to have an equivalent right of set-off to that of the reporting entity. According to the submitter paragraph 42(a) of IAS 32 does not appear to require all parties to currently have a legal right to set-off. This paragraph focuses on the reporting entity and requires only the reporting entity to currently have a right of set-off and that right must be legally enforceable. However paragraph BC80 of IAS 32 appears to require the right for all counterparties. The submitter notes that the current practice is to present the amounts due and payable net if the reporting entity has the right to set-off. Whether the counterparty (or counterparties) have equivalent right(s) to set-off is considered irrelevant.	The staff will bring this issue to the November 2012 Interpretations Committee meeting. The submission is included in **Appendix A** of this paper.
IFRS 10-2	IFRS 10 *Consolidated Financial Statements:* Protective rights and continous assessment of control under IFRS 10	Request for clarification of the concept of 'protective rights' in IFRS 10. The submitter thinks that the application of the concept is unclear when rights that are otherwise protective are 'activated' (ie become exercisable). The submitter questions whether the fact that protective rights become exercisable warrants a reassessment of the control conclusion which might lead to a change in the consolidation conclusion. The submitter refers that this issue is likely to have a significant effect on the statement of financial position of entities once IFRS 10 becomes effective.	The staff will bring this issue to the November 2012 Interpretations Committee meeting. The submission is included in **Appendix B** of this paper.
IFRS 3-15	IFRS 3 *Business Combinations*: Mandatory purchase of non-controlling interests in business	Request for clarification of the accounting for mandatory purchase of non-controlling interests in business combinations The submitter notes that IFRS 3 does not specifically address the accounting for a sequence of transactions that begins with	The staff will bring this issue to the November 2012 Interpretations Committee meeting. The submission is included in **Appendix C** of this paper.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
	combinations	acquirer gaining control over another entity, followed by acquiring an additional ownership interest shortly thereafter as a result of a regulatory requirement to offer to purchase the additional interest. The two issues that arise are: 1. Should the initial acquisition of controlling stake and subsequent MTO be treated as separate transactions or as one single acquisition (linked transactions)? 2. Should a liability be recognised for the MTO at the date the acquirer obtains control of the acquiree?	
IAS 1-7	IAS 1 *Presentation of Financial Statements*: Disclosures requirements about assessment of going concern	Request for clarification of disclosure requirements in paragraph 25 of IAS 1 (see below), which deals with the use of the going concern basis for preparation of financial statements. Clarification is specifically requested when an entity is facing financial difficulties but can take one or more actions (e.g., rights issue, debt rescheduling, fire sale of assets, etc.) in order to avoid liquidation or ceasing to trade. Paragraph 25 in IAS 1 Presentation of Financial Statements requires: a) management to make an assessment of an entity's ability to continue as a going concern; b) an entity to 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"; and c) 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 to disclose those uncertainties. The following questions are raised: (1) Are the criteria for management's use of the going concern assumption (i.e., liquidation or ceasing to trade) the same as those for the disclosure of material uncertainties? In particular, is the phrase 'ability to continue as a going concern' intended to simply mean that the entity will not need to liquidate or cease operations, or does it mean more broadly that the entity will be able to discharge its obligations as they become due in the normal course of	The staff will bring this issue to the November 2012 Interpretations Committee meeting. The original submission is included in **Appendix D** of this paper. Since we have received this submission, we have clarified with the submitter that the Interpretations Committee would consider those raised in this table instead of the ones originally submitted in **Appendix D**.

New issues			
Ref.	**Topic**	**Brief description**	**Progress**
		business? (2) What disclosures should be given about material uncertainties? In particular, what should be disclosed when an entity is in financial difficulties but management is confident that it can take one or more actions outside the ordinary course of business, and therefore prepares financial statements on a going concern basis? (3) Is IAS 1 sufficiently clear on this? Would it assist if the words 'and therefore meet its obligations as they become due in the normal course of business' were added at the end of 'ability to continue as a going concern' in (c) above?	

4. This paper does not include requests on issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or other parties, to define the issue more clearly.

5. We are reproducing in **Appendices A-D** the new requests that we have received. All information has been copied without modification. We deleted details that would identify the submitter of those requests.

Question

Does the Interpretations Committee have any questions or comments on the Interpretations Committee Outstanding Issues List?

Appendix A – IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Liabilities: Legal right to set-off*

Interpretations Committee potential agenda item request

Does the IAS 32 legal right of set-off need to be a right held by all parties to a financial instrument?

The IFRS Interpretations Committee is requested to address the following issue with respect to the application of the December 2011 amendments to IAS 32 *Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

The issue:

We are asking the Interpretations Committee to clarify whether, in order to qualify for balance sheet offsetting, the counterparty (or counterparties) to a netting arrangement is required to have an equivalent right of set-off to that of the reporting entity.

The Basis for Conclusions[1] to the IAS 32 amendments states that ''... **the right must exist for all counterparties** so that, if an event occurs for one of the counterparties (including the entity), the other counterparty or parties will be able to enforce the right of set-off against the party that has defaulted or gone insolvent or bankrupt". [Emphasis added].

However, IAS 32[2] does not appear to require all parties to currently have a legal right to set off; the standard focuses on the *reporting entity* and requires *only* the reporting entity to currently have a right of set-off and that right must be legally enforceable. This emphasis on the right of set-off in the hands of the reporting entity, regardless of whether the counterparty has an equivalent right, is also clear from the Application Guidance which states[3] ''... an entity must currently have a legally enforceable right of set-off. This means that the right of set-off: (a) must not be contingent on a future event; and (b) must be legally enforceable in all of the following circumstances: (i) the normal course of business; (ii) the event of default; and (iii) the event of insolvency or bankruptcy of the entity and all of the counterparties.''

This issue is relevant in situations where only one party to a netting agreement has the legal right of set-off. An example could be when a financial institution has both the intent to settle net and an enforceable right to set off a customer's loans against the same customer's deposits in: (a) the normal course of business; (b) upon default, bankruptcy or insolvency of the customer; and (c) upon its own default, bankruptcy or insolvency. However, the customer does not have an equivalent right of set off.

[1] Paragraph BC80
[2] Paragraph 42(a)
[3] Paragraph AG38B

View 1

Offsetting will not be achieved in the example above. The Basis for Conclusions requires all parties to a netting agreement to have the right to set-off and hence would not permit the financial institution to set off the amounts due and payable under the customer's loans and deposits.

View 2

The standard and its application guidance indicate that the offsetting criteria, as stipulated, have been met in the example and therefore offsetting is required. Proponents of this view consider that the reference to 'all of the counterparties' pertains to the legal enforceability of the reporting entity's right in the circumstances listed (i.e. the normal course of business, the events of default, insolvency or bankruptcy), and not who holds the set-off right.

Current practice:

Current practice is to present the amounts due and payable net if the reporting entity has the right to set-off. Whether the counterparty (or counterparties) have equivalent right(s) to set-off is considered irrelevant.

Reasons for the IFRS Interpretations Committee to address the issue:

(a) The issue is widespread and has practical relevance

The issue is relevant to many financial institutions.

(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice).

Divergence in practice is likely to increase as time passes.

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

Yes, financial reporting would be improved if there were clarity about the requirement on whether the counterparty (or counterparties) to an offsetting arrangement needs to have an equivalent right to set-off.

(d) Is the issue a narrow implementation or application issue that can be resolved using existing IFRSs?

We consider that this issue can be resolved using existing IFRSs

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

We are unaware of any current or planned IASB project that will address this issue.

Appendix B –IFRS 10 *Consolidated Financial Statements* Protective rights and continous assessment of control under IFRS 10

IFRIC potential agenda item request

This letter describes an issue that we believe should be added to the IFRIC's agenda. We have included a summary of the issue, a range of possible views and an assessment of the issue against IFRIC's agenda criteria.

The issue: protective rights and continuous assessment of control under IFRS 10

IFRS 10 *Consolidated Financial Statements* explicitly introduces the concept of protective rights. However, we believe that the application of the concept is unclear when rights that are otherwise protective are 'activated' – i.e. become exercisable. As explained in the rest of this letter, the fundamental issue is whether or not a change in the control conclusion is appropriate as a result of such rights becoming exercisable.

The following example is used to illustrate the issue:

> An operating company has all of its shares owned by another entity (the investor), which has held them for many years. The operating company enters into a loan arrangement with a bank, which contains several covenants. If a covenant is breached, then the bank has rights to veto major business decisions (considered to be the relevant activities of that company) and to call the loan. At the outset of the loan, the investor concludes that the bank's rights are protective, because they are designed to protect the interests of the bank without giving the bank power over the company. The investor continues to consolidate the company.
>
> After a period of time, due to its deteriorating financial position, the company breaches a covenant. The bank does not call the loan, although it retains the right to do so, and now also has the right to veto any major business decisions – i.e. it has veto rights over the relevant activities of the company. In some cases such a situation may be resolved in the short-term (covenants renegotiated), and in others it may not.

At the point in time at which the bank's right to call the loan and to veto any major business decisions becomes exercisable, what are the consolidation implications for the investor and the bank?

- The consolidation conclusion is or may be changed because there has been a change as to how decisions about relevant activities are made.

- The consolidation conclusion is not changed, because once rights are assessed as being protective they continue to be classified as protective throughout their lives, and protective rights are not taken into account in the control assessment.[4]

[4] The issues set out in the two bullet points would also be relevant to the bank even if there was no investor that owned all of the shares of the borrower company – e.g. if the borrower company was listed.

These outcomes are explored further below.

Current practice

There is currently no established practice because IFRS 10 is not yet in effect. However, we believe that this issue is likely to establish itself as a practice issue once entities begin to apply the standard. We believe that IFRIC should consider the issue because the potential outcomes (consolidate vs do not consolidate) could have a significant effect on the statement of financial position of entities, particularly lenders, and that consistency in this area is desirable.

Here we outline what we believe are the different approaches that an entity could take.

View 1: Consolidation conclusion is reassessed and may change

View 1 proceeds from the premise that IFRS 10 is based on the concept of 'continuous assessment'. When protective rights become exercisable, there is a change in facts and circumstances, which warrants a reassessment of the control conclusion. In the example above this will, or may, lead the majority investor to conclude that it no longer controls the company and for the bank to conclude that it controls it. This is based on IFRS 10.8 and BC149-BC153.

Supporters of View 1 argue the following based on IFRS 10:

- Paragraph 8 takes precedence in assessing (reassessing) control, because it establishes the overall principle underlying the consolidation model. Therefore, even if the guidance in Appendix B can be read (explicitly or implicitly) to support View 2, this was not the Board's intent.

- While BC152 refers to changes in market conditions not leading to a change in control, the text refers to market conditions *alone*. However, in accordance with BC153, if a change in market conditions triggers a consequential change in one of the three elements of control, then control should be reassessed.

Paragraph BC85 of IFRS 12 *Disclosure of Interests in Other Entities* states that traditional operating entities whose financing was restricted following a downturn in activities were not meant to be structured entities – i.e. entities that are controlled by rights other than voting rights. Supporters of View 1 believe that this statement is made solely in the context of disclosure, and was not intended to indicate that no reassessment of control is required in such circumstances.

View 2: Consolidation conclusion would not change even if reassessed

View 2 is based on the premise that protective rights are excluded from the control assessment and that rights that were originally determined to be protective do not stop being protective solely because the rights become exercisable due to the occurrence of the exceptional circumstances to which they relate. Accordingly, a reassessment of control at this point would lead to the same control conclusion as arrived at initially.

This view is supported by the following analysis of IFRS 10:

- Paragraph B26 has a direct definition of protective rights. Paragraph B27 states the consequence of meeting this definition, being that such rights do not lead to power.

- There is nothing in IFRS 10 to specify the fact that rights cease to be protective on the occurrence of the exceptional circumstances to which they relate. In fact, B27 refers to protective rights as being so by design, supporting that it is the initial set-up and purpose of rights that is the focus of application of the definition and not any later activation.

- Accordingly, if rights meet the definition of protective when they are initially set up, then they do not lose their protective character if they subsequently become exercisable.

Supporters of View 2 argue that there would be no purpose to having categorised rights as protective when they are dormant at the outset, only to reverse that once they become exercisable:

- At the outset it would be uncontentious that dormant protective rights could not affect the consolidation assessment, and this would be so without needing a special designation of those rights as 'protective'.

- The protective designation would then be withdrawn on the occurrence of the exceptional circumstances for which they are designed.

So, if View 2 does not apply, then at no time would the concept of protective rights have had any practical consequences.

Supporters of View 2 would also note the following points:

- View 2 is not denying the principle of continuous assessment. It is not trying to prevent a re-performance of the assessment in order to avoid a consequent change in the consolidation conclusion. Rather, it is saying that even if the assessment were re-performed, it would not result in a different conclusion because the rights are still protective.

- It may be important to consider the relationship between substantive and protective rights. For example, if substantive and protective rights were mutually exclusive categories, then that might support View 1 – on activation the rights become substantive and therefore can no longer be protective. However, supporters of View 2 would argue that B22, B25 and B26 of IFRS 10 appear clear that protective rights are also substantive – i.e. they are a subset of substantive rights. In effect, they would argue that the steps of analysis required by IFRS 10 are: (1) disregard any rights that are not substantive (B22); (2) some of the remaining substantive rights may be protective (B25); (3) so identify those substantive rights that are protective as defined (B26) and disregard them (B27).

Reasons for the IFRIC to address the issue

a) ***Is the issue widespread and practical?*** Yes. Protective rights are common in contractual arrangements, especially loans, and given the ongoing economic environment, we expect this issue to be very widespread.

b) ***Does the issue involve significantly divergent interpretations?*** Yes. Depending on the interpretation applied, the decision to consolidate vs not consolidate by a majority investor and a lender could have a significant effect on an entity's statement of financial position.

c) ***Would financial reporting be improved through elimination of the diversity?*** Yes. The comparability of financial statements will be improved if entities apply the concept of substantive vs protective rights on the same basis.

d) ***Is the issue sufficiently narrow…?*** Yes. We believe that the issue is capable of interpretation within the confines of IFRS 10. It is concerned with specific concepts in IFRS 10.

e) ***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 issue does not relate to a current or planned IASB project.

Appendix C – IFRS 3 *Business Combinations* – Mandatory purchase of non-controlling interests in business combinations

IFRS IC POTENTIAL AGENDA ITEM

Issue:

The issue is the accounting for an acquirer of an additional interest in an acquired subsidiary from the Non Controlling Interest shareholders (NCI) arising from a Mandatory Tender Offer (MTO) required by the local laws and regulations. A party who acquires a controlling interest in a listed company must initiate a MTO to the NCI to buy remaining interests at same price or more. This law is triggered when the acquirer obtains a controlling stake in a listed company which is accounted for under IFRS 3 'Business Combinations'[5]. It is not clear whether the MTO should be accounted for as part of the business combination under IFRS 3, IAS 27(2008), and IFRS 10 or as a separate transaction. This issue is not specifically addressed in IFRS 3. Most large accounting firm guidance says to apply the factors in IAS 27(2008).33 by analogy. These same factors are included in IFRS 10.B97. The guidance published by the large accounting firms indicates diversity in practice on whether a MTO is a linked or separate transaction from the business combination.

This could be further supplemented through the help of an example:

B is a listed company with a 60% single controlling shareholder and a 40% public ownership. Entity A acquires the 60% ownership block from the controlling shareholder at a price of 100 per share and obtains control of B. Local listing rules require Entity A to make a mandatory tender offer to the remaining 40% public shareholders within 2 months from the acquisition date at the same price per share as for the 60%. The remaining shareholders have the option to either accept or not accept the offer. It may take another 2 months to know the final results of the offer. Let's assume Entity A ends up owning 75% of B at the end of the mandatory offer period. However, the MTO period ends after the year end reporting date.

The two issues which arise are:

1. Should the initial acquisition of 60% and subsequent MTO be treated as separate transactions or as one single acquisition (linked transactions)?
2. Should a liability be recognised for the MTO at the date Entity A obtains control of company B?

Current practice:

There are two views currently with respect to both the issues which are as follows:

Issue 1 – Should the acquisition of the subsequent 15% be accounted for as a separate transaction?

View 1 – No (the two transactions should be accounted for as linked transactions)

The following points support view 1:

- The offer to the NCI is a mandatory securities law requirement triggered by the acquisition of the controlling interest. The acquirer cannot avoid making the offer. The acquirer has no discretion on the price that must be offered to the minority shareholders.
- A judgment that the transactions are separate implies that the securities law is not enforceable or substantive.
- The transaction occurs within short period of time.

[5] Note that local laws and regulations may also mandate a MTO upon acquisition of a non-controlling stake above a certain threshold, say 40%. This paper only deals with the situation of an MTO triggered by the acquisition of a controlling stake.

- Although the acquirer has separately negotiated with the former owner the acquisition of the controlling stake, the acquirer knows from the onset that it will have to launch a MTO. From the acquirer's perspective, it can be viewed as one deal for which the acquirer needs to plan for the subsequent increase in interest (including the financing of it)
- The indicator in IAS 27(2008).33 regarding 'They form a single transaction designed to achieve an overall commercial effect.' supports linked transactions because the spirit and intent of the MTO securities law is to protect the minority shareholders interest when the controlling interest is sold.
- Both transactions should be accounted for one single acquisition because the pricing of the MTO is related to the amount paid for the controlling stake.

The treatment will be as follows, assuming it is concluded on issue 2 that the legal requirement to initiate a MTO does not give rise to a liability:

- The acquisition of the initial controlling stake and the following MTO will be accounted for as a single transaction that is completed over a period of time.
- There will be no NCI recorded at the year-end reporting date because the MTO is finalised after year end reporting date.
- The acquisition of 60% will be based on provisional accounting and additional goodwill for additional 15% stake and NCI of 25% will be recognised after closure of MTO period. Because the additional goodwill for additional 15% stake results from facts and circumstances arising on completion of the MTO (i.e. after the acquisition date), the additional goodwill is not accounted for retrospectively from the acquisition date.
- A company would make the terms of the MTO and the accounting at year-end transparent through disclosures.

Refer to the example in appendix CC, issue 1, view 1 for further detail. Refer to the example in appendix CC , view 3 for the treatment of the MTO as linked transaction when the conclusion on issue 2 is that a liability should be recorded.

View 2 – Yes (the two transactions should be accounted for separately)

The following points support view 2:

- Although the regulations create a linkage between the initial 60% acquisition and subsequent MTO, each transaction on its own is economically justified (i.e., they do not form a single transaction designed to achieve an overall commercial effect).The objective and economic justification of the 60% acquisition is to obtain control over B. It is also the result of a separate negotiation between A and the previous controlling party.
- The objective of the 60% acquisition is to obtain control over B and is separately negotiated between A and the previous controlling party. The MTO and its terms (same price as for the 60%) is more the result of a legal protection of the remaining shareholders rather than a willing decision from A to buy their stake.
- There is no compulsion on the remaining shareholders to accept the offer and it will be subject to a separate decision from their end.
- Local laws and regulations often include a price adjustment mechanism for the MTO, where the NCI will receive a higher price than the price paid for the controlling stake if the market value of the acquiree company has increased above the price paid for the controlling stake. This supports the view that the subsequent purchase from NCI has economic substance on its own.

Goodwill is recognised based on the 60% stake if proportionate share method is adopted. The acquisition of the 15% is treated as acquisition of NCI within equity. Refer to the example in appendix CC, issue 1, view 2 for further detail.

Issue 2 – Does the legal requirement to initiate the MTO meet the definition of a liability at the date control is obtained?

View 1 – No

The following points support view 1:

- The statutory obligation to do a MTO does not represent a contract between A and the remaining shareholders, hence is out of the scope of IAS 32.
- No IAS 37 liability should be recognised because IAS 37 scopes out contracts that are executory in nature, and there is no onerous contract.

Refer to the example in appendix CC, issue 1, view 1 and view 2 for further detail.

View 2 – Yes

The following points support view 2:

- Economically, the existence of the statutory obligation is no different from a put option granted to NCI, which would be recognised as a financial liability based on the present value of expected payments.

Issues 1 and 2 are related. The transactions are more likely to be linked if a liability exists for the MTO at the acquisition date. Refer to the example in appendix CC, issue 2, view 2 for further detail.

Reasons for the IFRS IC / IASB to address the issue:

IFRS 3 does not specifically address the accounting for a sequence of transactions that begins with acquirer gaining control over a business followed by an additional interest being acquired shortly thereafter as a result of a tender offer. The issue occurs frequently and is widespread and practical in nature because many jurisdictions have company law or securities law that requires mandatory tender offers. We believe it is currently resulting in divergent interpretations and treatment in practice. There are mixed views between large firms resulting in an inconsistent approach currently. Refer to appendix D[6] for the guidance developed by some of the large firms.

A particular accounting treatment may impact the amount of goodwill recognised. Further, the amount of NCI to be recognised may differ in different reporting periods. We feel there is scope for an improvement in financial reporting through elimination of this diversity. The issue is currently not directly related to any IASB project. This issue might be considered as part of the post-implementation review of IFRS 3 or as a separate annual improvement project to amend IFRS 10.

A proposed clarification on this issue could avoid further divergence in the accounting for MTOs. See appendix CB for potential narrow amendments that could be done through an annual improvement project.

[6] Not included in this paper

Appendix CA – Relevant IFRS guidance

IAS27(2008).30 – Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

IAS27(2008).33 - A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

(a) They are entered into at the same time or in contemplation of each other.

(b) They form a single transaction designed to achieve an overall commercial effect.

(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

IFRS 10.B97 A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

a) They are entered into at the same time or in contemplation of each other.
b) They form a single transaction designed to achieve an overall commercial effect.
c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

IAS32.11 - A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

IAS32.AG12. Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes is dealt with in IAS 12. Similarly, constructive obligations, as defined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, do not arise from contracts and are not financial liabilities.

Appendix CB – Proposed improvement amendments

View 1 & 3: Linked transactions

IFRS 3.B50 The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquiree or whether the transaction is separate from the business combination:

(a) the reasons for the transaction—Understanding the reasons why the parties to the combination (the acquirer and the acquiree and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquiree. Accordingly, the acquirer would account for that portion separately from the business combination.

(b) **how was the transaction initiated** ~~who initiated the transaction—~~ Understanding **how the transaction was initiated** ~~who initiated the transaction~~ may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree**,** its former owners, or **triggered by regulatory law as a result of the business combination** is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the business combination transaction.

(c) the timing of the transaction—The timing of the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the negotiations of the terms of a business combination may have been entered into in contemplation of the business combination to provide future economic benefits to the acquirer or the combined entity. If so, the acquiree or its former owners before the business combination are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

View 2: Separate transactions

IFRS 10.23 Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (ie transactions with owners in their capacity as owners) **irrespective of whether the transaction was initiated as a result of another transaction in which control was obtained or lost (ie a mandatory tender offer).**

Appendix CC – Example

Facts: Entity A acquires 60% of listed company B from the previous controlling shareholder at a price of CU300 and obtains control of B. Local listing rules require Entity A to make a mandatory tender offer (MTO) to the remaining interests within 2 months from the acquisition date at the higher of the price per share paid for the 60% or the average highest price traded on the exchange during 90 days prior to the announcement of the MTO. The remaining shareholders have the option to accept or not the offer. It may take another 2 months to know the final results of the offer. Let's assume Entity A ends up owning 85% of B at the end of the mandatory offer period. The price for the additional 25% in the mandatory tender offer is the same as the acquisition date price (e.g., CU125). Assume the net identifiable assets of company B have a fair value of 400. Assume the proportionate share method is used to measure NCI.

Date	**Event**
November 30, 20X1	Acquisition date for 60%
January 30, 20X2	MTO published, share price is the same as acquisition date
March 30, 20X2	MTO closes and shares are tendered for cash for 25%

Issue 1, View 1: No Liability, Linked transactions

November 30, 20X1: Entity A records the following on the acquisition date:

DR	Net Assets		CU400	
	CR	Cash		CU300
	CR	Equity (parent)		CU100[7]

To record the acquisition of company B assuming the MTO will result in 100% ownership.

March 30, 20X2: Entity A has records the mandatory tender offer 4 months after the acquisition date.

DR	Equity (parent)		CU100	
DR	Goodwill		CU85	
	CR	Cash		CU125
	CR	NCI		CU60

To record the final outcome of the mandatory tender offer of 85% ownership. This entry is accounted for prospectively and the period ending December 31, 20X1 is not adjusted.

Fair value of consideration	425
Proportionate share of NCI	60
Subtotal	485
less: recognised value of 100% of net assets	400
Goodwill recognised	85

[7] If the cash paid for the 60% is more than the fair value of the net identifiable assets, then there would be a debit to goodwill instead of a credit to equity.

Issue 1, View 2: No Liability, Separate transactions

November 30, 20X1: Entity A records the following on the acquisition date:

DR	Net Assets		CU400	
DR	Goodwill		CU60	
	CR	Cash		CU300
	CR	NCI		CU160

To record the acquisition of 60% of company B.

Fair value of consideration	300
Proportionate share of NCI	160
Subtotal	460
less: recognised value of 100% of net assets	400
Goodwill recognised	60

March 30, 20X2: Entity A has records the mandatory tender offer 4 months after the acquisition date.

DR	NCI		CU100	
DR	Equity (parent)		CU25	
	CR	Cash		CU125

To record the final outcome of the mandatory tender offer of 85% ownership.

Issue 2, view 2: Liability, Linked transactions

November 30, 20X1: Entity A records the following on the acquisition date:

DR	Net Assets		CU400	
DR	Goodwill		CU100	
	CR	Cash		CU300
	CR	Liability		CU200

To record the acquisition of company B assuming the MTO will result in 100% ownership.

January 30, 20X2: Entity A re-measures the liability for the increase in share price.

DR	Finance expense		CU0	
	CR	Liability		CU0

To re-measure the fair value of the liability. There is no impact in this example because the price did not increase.

March 30, 20X2: Entity A has records the mandatory tender offer 4 months after the acquisition date.

DR	Liability		CU200	
	CR	Cash		CU125
	CR	NCI		CU60
	CR	Goodwill		CU15

To record the final outcome of the mandatory tender offer of 85% ownership.

Appendix D–IAS 1: Disclosures requirements about assessment of going concern

Briefing Paper – Clarification of the Concepts Relating to Going Concern in IFRSs

Background

1. The recent global financial crisis has highlighted the importance to financial markets of clear and timely financial reporting, and has resulted in a greater focus on the assessment of going concern and related disclosures. In the wake of the crisis, major policy debates have been initiated regarding the lessons that can be learned and the actions that can be taken with respect to going concern and liquidity risk issues that entities may be facing, including how the auditor might play a greater role in this regard.[5] The fact that going concern remains an especially critical financial reporting and auditing issue is underscored by the recent European Commission (EC) policy proposals regarding the statutory audit, a significant element of which is intended to enhance auditor reporting through the inclusion of an affirmative statement regarding going concern in the auditor's report for a public interest entity (PIE).[6] In addition, some respondents to the International Auditing and Assurance Standards Board's (IAASB) May 2011 consultation[7] asked for clarification of the respective roles and responsibilities of management and the auditor regarding going concern, and for auditors to report the outcome of their audit work regarding going concern. These developments provide a significant impetus for the IAASB to seek to enhance auditor reporting in this area.

[5] For example:

- In March 2011, the UK FRC launched an inquiry to identify lessons for companies and auditors addressing going concern and liquidity risks (the Sharman Inquiry) (see www.frc.org.uk/about/sharmaninquiry.cfm).
- In March 2012, the US PCAOB Investor Advisory Group (IAG) held discussions on the topic of going concern and related recommendations for possible actions by policy makers to enhance reporting by both companies and auditors regarding going concern (see pcaobus.org/News/Events/Pages/03282012_IAGMeeting.aspx).

[6] Under Article 22 of the EC's proposed regulation concerning audit reporting for PIEs, auditors would be required to provide "a statement on the situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore continue as a going concern." The EC's proposals can be accessed at http://ec.europa.eu/internal_market/auditing/reform/index_en.htm.

[7] To explore options to enhance auditor reporting globally, the IAASB issued a consultation paper *Enhancing the Value of Auditor Reporting: Exploring Options for Change* in May 2011 (see http://www.ifac.org/sites/default/files/publications/exposure-drafts/CP_Auditor_Reporting-Final.pdf). The IAASB subsequently approved a project on auditor reporting in December 2011 (see http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Updated%20Agenda_Item_5-A-Auditor_%20Reporting_Project_Proposal-Approved__Clean_.pdf).

2. In response to these developments, the IAASB intends to propose in its forthcoming consultation on auditor reporting[8] that all auditors' reports be required to include:

   (a) A conclusion regarding the appropriateness of management's use of the going concern assumption; and

   (b) A statement regarding whether, based on the audit work performed, material uncertainties have been identified related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

3. To support this proposal, the IAASB believes that it may be necessary to provide additional guidance in the International Standards on Auditing (ISAs) regarding the nature of going concern and material uncertainties related to it. In this regard, the IAASB believes that, in developing and finalizing such guidance, it would be highly desirable to coordinate closely with the International Accounting Standards Board (IASB), given that the guidance on going concern in the ISAs (see Attachment 1) is closely interrelated with that in International Financial Reporting Standards (IFRSs) (see Attachment 2).

Matters for IASB Consideration

4. In considering how to clearly convey the outcome of the auditor's work on going concern in the auditor's report, the IAASB has identified three areas where it believes further guidance may be beneficial:

   (a) Are the criteria (or "threshold") for management's use of the going concern assumption the same as those for deeming the entity as being able to continue as a going concern?

   (b) How should the term "significant doubt" be interpreted in relation to the concept of material uncertainty?

   (c) What is management expected to disclose in relation to a material uncertainty?

Criteria for Use of the Going Concern Assumption and for Regarding the Entity as a Going Concern

5. IAS 1,[9] paragraph 25, requires that when preparing the financial statements, management make an assessment of the entity's ability to continue as a going concern. It requires that the entity 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.

6. From this requirement, it is clear that use of the going concern basis of accounting (i.e., the going concern assumption) is appropriate only when the entity is not already in extreme financial distress (i.e., when the entity needs to liquidate or cease operations). This is also emphasized by the requirement in IAS 10,[10] paragraph 14 (see Attachment 2). It is less clear whether *proximity to liquidation* is, or should be, the same threshold for the disclosure of material uncertainties relating to going concern.

[8] At its June 2012 meeting, the IAASB will be considering for approval an Invitation to Comment that will seek stakeholder input on a number of proposals to enhance the communicative value of auditor reporting (see http://www.ifac.org/sites/default/files/meetings/files/20120611-IAASB-Agenda_Item_3A-Auditor_Reporting__Draft_ITC-final.pdf).

[9] IAS 1, *Presentation of Financial Statements*

[10] IAS 10, *Events after the Reporting Period*

7. A potential for differing views on this is created by the use of the phrase “ability to continue as a going concern” in the first sentence of paragraph 25 of IAS 1 in relation to the assessment that management is required to make, and in the description of a material uncertainty (“significant doubt upon the entity’s ability to continue as a going concern”). It is unclear from the guidance in IAS 1 whether the “ability to continue as a going concern” is intended to simply mean that the entity will not need to liquidate or cease operations, or whether it more broadly means that the entity will be able to discharge its obligations as they become due in the normal course of business. There is a conceptual difference in that an entity that is facing significant difficulties in meeting its obligations as they become due may not be facing liquidation. For example, an entity that is unable to make its normal debt repayments may address this through debt rescheduling, raising additional equity capital by way of a rights issue, or selling part of its business.
8. Given that users are seeking timelier disclosures in relation to going concern, linking the disclosure of a material uncertainty to the broader concept of the entity’s ability to discharge its obligations as they become due in the normal course of business would make information about such a material uncertainty public earlier than if the disclosure were linked to the entity’s imminent liquidation.

Meaning of “Significant Doubt”

9. The disclosure of material uncertainties relating to going concern is important information for users. It is therefore very important that preparers and auditors understand the threshold for the disclosure of material uncertainties and apply it consistently.
10. IAS 1, paragraph 25, requires that 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 disclose those uncertainties. IAS 1, however, does not define the concept of material uncertainty or provide guidance to explain what it means.
11. The interaction of the terms “material,” “may,” and “significant” make this a very complex concept and can lead to confusion in practice.
12. An uncertainty about whether an entity will be able to continue as a going concern will likely always be material to users. For example, from a capital markets perspective, even a slight perception of a risk of a going concern issue can have a material impact on bond yields or the interest rate charged by other creditors (e.g., banks) to the entity. Arguably, it is the *likelihood* of the occurrence of the event or condition that will give rise to the existence of the need for disclosures.
13. In addition, the word “may” in a probabilistic sense means “possible,” which implies a very low threshold for identifying when events or conditions “may” cast significant doubt. On the other hand, the use of the word “significant” implies a high threshold.

Disclosure of Material Uncertainties

14. Paragraph 25 of IAS 1 requires that 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 disclose those uncertainties. There is no guidance as to what management is in fact expected to disclose. In particular, it is unclear whether management is expected to disclose the nature of the event or condition, the severity of the issue, the likelihood of its occurrence, or the likely effect of mitigating circumstances, including management actions to address the issue.

Attachment 1

Relevant Requirements and Guidance in ISA 570[11]

2. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis is relevant (for example, the going concern basis is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

9. The objectives of the auditor are:

   (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements;

   (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

   …

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in ISA 560,[12] the auditor shall request management to extend its assessment period to at least twelve months from that date.

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors.

17. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

[11] ISA 570, *Going Concern*

[12] ISA 560, "Subsequent Events," paragraph 5(a).

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

Attachment 2

Relevant Requirements and Guidance in IASs 1 and 10

IAS 1

25. 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.

26. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

IAS 10

14. An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

16. IAS 1 specifies required disclosures if:

    (a) the financial statements are not prepared on a going concern basis; or

    (b) 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 events or conditions requiring disclosure may arise after the reporting period.