

STAFF PAPER

January 2014

IFRS Interpretations Committee Meeting

Project	Disclosure requirements about an assessment of going concern		
Paper topic	Update on the IASB's decision not to proceed		
CONTACT(S)	April Pitman	apitman@ifrs.org	+44 (0)20 7246 6492

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*.

Purpose of this paper

1. In June 2012, the IFRS Interpretations Committee ('the Interpretations Committee') received a request for clarification about IAS 1 *Presentation of Financial Statements*. This Standard includes guidance on when financial statements should be prepared on a going concern basis. It also requires that when management are aware of material uncertainties about the entity's ability to continue as a going concern, those uncertainties shall be disclosed. The submitter, the International Audit and Assurance Standards Board (IAASB), thinks that the guidance about the disclosure of these uncertainties is not clear.
2. At its January 2012 meeting, the Interpretations Committee recommended to the IASB that it should make a narrow-focus amendment to IAS 1 that would answer two questions:
 - (a) When should an entity be required to disclose information about material uncertainties related to events or conditions that cast significant doubts upon the entity's ability to continue as a going concern?

- (b) What is the objective of those disclosures about material uncertainties about the entity's ability to continue as a going concern and what disclosures should be required?
3. The purpose of this paper is:
- (a) to update you on the IASB's decision in November 2013 not to proceed with that proposed amendment; and
 - (b) to ask you whether you have any further questions on the IASB's discussions on that topic.

Paper structure

4. The paper is organised as follows:
- (a) background;
 - (b) March 2013 meeting of the IASB;
 - (c) November 2013 meeting of the IASB; and
 - (d) question for the members of the Interpretations Committee.

Background

5. Going concern is addressed in paragraph 25 of 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.

6. In November 2012 and January 2013 you discussed proposed amendments to IAS 1 that would provide additional guidance on when disclosures about going concern should be made and what the objective of those disclosures should be. The following comments summarise the basis used for preparing your proposed narrow-scope amendment to IAS 1:

- (a) The Standard, as originally issued, contains two separate notions—going concern as a basis for the preparation of financial statements and a requirement to disclose material uncertainties about an entity’s ability to continue as a going concern.
- (b) Outreach conducted suggested that part of the reported diversity in practice arose because the distinction between these two separate requirements was not sufficiently clear in the Standard. To achieve clarity, the recommended proposal would have restructured the going concern section into three separate topics—basis of preparation; identification of material uncertainties; and disclosure.
- (c) The requirements of the Standard with respect to going concern as a basis for the preparation of the financial statements were clear and worked well in practice. The recommended amendment did not make significant revision to these requirements.
- (d) The proposed amendment consisted mainly of new guidance on how to identify material uncertainties about an entity’s ability to continue as a going concern and what to disclose in relation to material uncertainties.
- (e) The Interpretations committee had mixed views on how detailed this guidance should be. Some Interpretations Committee members thought that the guidance should include indicators to help identify whether an uncertainty is material or not or examples of possible indicators of financial distress. Other Interpretations Committee members argued

that such examples blurred the principles involved and could lead to divergence in practice. On balance the Interpretations Committee recommended including indicators and examples in the proposed amendment and but asking a question in the Exposure Draft on whether such guidance is useful.

7. You also recommended that the IASB should consider whether the time frame for an assessment of going concern, which is currently set as “at least, but not limited to, twelve months from the reporting date”, should be extended to align with the time frame required by some national standard setters, ie twelve months from the date on which the financial statements were authorised to be issued.

8. The January 2013 Agenda Papers are available on the website:

<http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/031301%20AP%2003%20IAS%201%20disclosures%20about%20going%20concern.pdf>

March 2013 meeting of the IASB

9. At their March 2013 meeting the IASB discussed your recommendations about when disclosures about going concern should be made and what disclosures would be required when that trigger had been reached. The paper discussed at the meeting is available on the website:

<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/March/03A-Proposed-narrow-focus-amendment-IAS%201.pdf>

10. At that meeting, the IASB asked the staff, with the help of a group of IASB members, to further develop the proposals for disclosure requirements about going concern. The topic of harmonising the assessment time period of going concern was not addressed at this meeting.

11. An extract of that meeting's *Update* is included below:

At this meeting, the IASB discussed the proposed amendment to IAS 1. The proposed amendment:

- retains the guidance relating to going concern as a basis for the preparation of the financial statements substantially unchanged,
- provides guidance on how to identify material uncertainties, and
- contains requirements about what to disclose about material uncertainties.

The IASB discussed whether this area should be addressed primarily by IFRS, auditors or regulators. It also considered whether the volume of disclosures proposed was appropriate and whether it was clear when an entity would be required to make those disclosures.

The IASB tentatively decided to further develop the proposals recommended to them by the Interpretations Committee.

Time frame for an assessment of going concern

This paper was not discussed by the IASB at this meeting.

Next step

The IASB requested that a revised draft of the proposals regarding the disclosure of material uncertainties about the entity's ability to continue as a going concern should be brought to them at a subsequent meeting.

November 2013 meeting of the IASB

12. Between April and October 2013 the staff further developed these proposals and conducted some further outreach with auditing firms and regulators.
13. At its November 2013 meeting, the IASB considered the approach that had been developed for disclosures about going concern. This approach was based on a number of conclusions on disclosure about going concern. These are summarised below:

- (a) The proposed amendment should not change the current requirements about going concern as a basis of preparation for the financial statements.
 - (b) The objective of any amendment would be to ensure that disclosures about going concern are timely and relevant.
 - (c) The proposed amendment should not alter the basis for assessing going concern in any way. Consequently, the proposals would not change the current outcome of the going concern assessment.
 - (d) The proposals would require that disclosure is triggered by the existence of events or conditions that, by their magnitude, likelihood and timing, cast significant doubt upon the entity's ability to continue as a going concern.
 - (e) Disclosures about both components of the going concern assessment—the event or condition that cast significant doubt and management's planned mitigating actions—would be required once the events or conditions that cast significant doubt had been identified.
14. The paper presented at the IASB's November 2013 meeting is available on the website:
- <http://www.ifrs.org/Meetings/Pages/IASB-Nov-13.aspx>
15. These proposals were discussed by the IASB at its November 2013 meeting. Some members of the IASB expressed concerns during these discussions:
- (a) Some members of the IASB think that the proposed amendment would result in boilerplate disclosures about a range of risks that would obscure relevant disclosures about going concern and would contribute to disclosure overload.
 - (b) Other members of the IASB think that this is a topic that is better handled through local regulatory or audit guidance.
 - (c) Some were concerned that the disclosure about events or conditions that cast significant doubt about an entity's ability to continue as a going

concern would result in a loss of confidence in the entity and that this would increase the likelihood of the entity no longer being able to continue as a going concern, the so-called ‘self-fulfilling prophecy’ effect.

- (d) Some members of the IASB also questioned whether there was a need for the proposed amendment.

16. Eight of the sixteen members of the IASB voted against continuing with these proposals and, accordingly, this topic was removed from the IASB’s agenda. An extract of the November 2013 *Update* is included below:

At this meeting, the IASB discussed the conclusions on which the proposed amendment would be based:

- The existing definition of going concern used as the basis of preparation of the financial statements would be unchanged.
- The going concern assessment process itself would be unaffected by the proposals.
- Disclosures about going concern would be triggered by the identification of events or conditions that by their magnitude, likelihood and timing cast significant doubt upon an entity’s ability to continue as a going concern.
- Disclosure would be required even if management judged that effective and feasible mitigating actions were available that were sufficient to avoid liquidation or cessation.

The IASB discussed whether the proposed trigger for disclosure was appropriate.

In the discussion, the IASB acknowledged that information about going concern is important to investors and that information about the events and conditions that cast

significant doubt upon an entity's ability to continue as a going concern is useful to investors and to creditors.

Many IASB members were concerned, however, about the sensitive nature of these disclosures. Some were concerned that, in making these disclosures, an entity could be in greater risk of no longer being a going concern, ie the act of disclosure could become a self-fulfilling prophecy. Others expressed concerns that even with the criteria of magnitude, likelihood and timing, too many events or conditions might be disclosed, resulting in boilerplate disclosures. Some IASB members were not persuaded that further guidance was needed.

Consequently, the IASB decided not to develop these proposals further and disagreed with the staff recommendation to use these conclusions as the basis of a proposed amendment to IAS 1. (8 members voted against the staff recommendation.)

Question for the members of the Interpretations Committee

Question

Do you have any questions on the IASB's discussions about going concern?