

STAFF PAPER

July 2014

IFRS Interpretations Committee Meeting

Project	Disclosure requirements about an assessment of going concern		
Paper topic	Tentative agenda decision: comment letter analysis		
CONTACT(S)	April Pitman	apitman@ifrs.org	+44 (0)20 7246 6492
	Michael Stewart	mstewart@ifrs.org	+44 (0)20 7246 6922

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Introduction

1. The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.
2. The Interpretations Committee proposed that the IASB should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments. There were a number of reasons for the IASB's decision and these were reported to the Interpretations Committee in Agenda Paper 7 of its January 2014 meeting.
3. At its March 2014 meeting, some Interpretations Committee members expressed concern about the IASB's decision not to proceed and discussed the IASB's decision in greater detail.

4. During these discussions it was noted that there are some circumstances when there has been a ‘close call’ in making the going concern assessment yet, on balance, management has concluded that no material uncertainties exist. The Interpretations Committee noted that significant judgements are required to arrive at the going concern conclusion in these circumstances.
5. During these discussions some members also noted the relevance of paragraph 122 of IAS 1 to this issue. This paragraph requires disclosure about significant judgements made in applying the entity’s accounting policies. The Interpretations Committee thought it would be helpful to highlight in the agenda decision that these judgements are an example of the application of paragraph 122 of the Standard.
6. The tentative agenda decision published in the March 2014 *IFRIC Update* is included in Appendix 1 to this paper.

Paper structure

7. The paper is organised as follows:
 - (a) comment letter summary;
 - (b) staff analysis; and
 - (c) staff recommendation.

Coment letter summary

8. The comment period ended on 9 June 2014. We received six responses. These comment letters are included as Appendix 2 to this paper.
9. Three of the comment letters agree with the agenda decision—Deloitte, EY and Comit  de Pronunciamentos Cont beis (the Brazilian standard-setter).
10. Three respondents did not agree with some aspects of the agenda decision:
 - (a) The International Auditing and Assurance Standards Board (‘the IAASB’), who were the original submitters of this issue.

They think that the reference to paragraph 122 of IAS 1 is a positive step because it may provide a basis from which they can provide further guidance on this topic. They query, however, whether material uncertainties with respect to an entity's ability to continue as a going concern would be understood as relating to the application of accounting policies or having a significant effect on the amounts recognised in the financial statements, referred to in paragraph 122 of the Standard.

They think that paragraph 125 of the Standard might also be relevant.

They also think that it is unclear what to disclose in accordance with paragraph 25 of the Standard

- (b) The Accounting Standards Board of Canada ('the AcSB') notes that the agenda decision does not identify reasons for not taking the topic onto the agenda.

In addition, they do not understand the reference to paragraph 122 of the Standard, which they think is not relevant. In their view, the preparation of the financial statements on a going concern basis is not an accounting policy, but a judgment of fact concerning something more fundamental. They suggest that if we think that paragraph 122 is relevant, then we should add 'going concern' to the examples noted in paragraph 123 of the Standard.

For the avoidance of doubt, they recommend adding any additional guidance to paragraph 25, which relates to the assessment of going concern.

- (c) The Financial Reporting Council of the UK ('the FRC') do not agree with the agenda decision. They think that there is significant diversity in practice and this diversity will remain after the tentative agenda decision is finalised.

They think that the agenda decision might exacerbate diversity, because it conflates going concern as a basis for preparation with the disclosure

requirements. They think that the reference to paragraph 122 of the Standard will result in unnecessary disclosure because all entities will think that they are required to make disclosures about the judgements made whenever management decides that a required disclosure, of any sort, is unnecessary.

They also note that the agenda decision does not explicitly state the reason for not adding this topic to the agenda nor does it address the content of any disclosures.

They recommend that the agenda decision should be extended to clarify the difference in the hurdle to be applied for deciding upon going concern as a basis for the preparation of the financial statements and the different hurdle to be applied for deciding that disclosures are required about that decision.

Staff analysis

11. The comment letters refer to four aspects of the agenda decision:
 - (a) references to other paragraphs of the Standard;
 - (b) an explicit reason not to take the issue onto its agenda;
 - (c) the lack of guidance about the nature of the required disclosures; and
 - (d) distinguishing between the disclosure hurdle and the basis of preparation hurdle.
12. We will consider each aspect in turn.

Reference to other paragraphs of the Standard

13. One respondent (the IAASB) thinks that the reference to paragraph 122 is a positive step, although they go on to say that the judgements made relating to the existence of material uncertainties may not be consistently understood as relating to the application of an accounting policy. Two respondents (the AcSB and the

FRC) do not think that the paragraph is relevant to the judgements made about going concern when assessed in accordance with paragraph 25 of the Standard. The Brazilian standard-setter thinks that paragraph 122, as noted in the agenda decision, may be applicable.

14. In addition, the FRC thinks that the reference to paragraph 122 will increase diversity in practice because they think that it introduces two separate assessments when applying paragraph 25 of the Standard. Furthermore, they think that the reference to this paragraph could result in unnecessary disclosures, because all entities might think it was necessary to disclose the judgements made whenever management decide that a required disclosure, not only those in relation to going concern, is not required.
15. One respondent (the AcSB) thinks that if we intend referring to paragraph 122 we should also refer to the need for an additional example relating to going concern in paragraph 123 of the Standard.
16. In addition, the IAASB thinks that aspects of paragraph 125 of the Standard, about sources of estimation uncertainty, may also be relevant because of the significant risk of a material adjustment to the carrying amounts of assets and liabilities if the entity does not continue as a going concern.
17. As our analysis shows, we received varied views on how useful the reference in the agenda decision to paragraph 122 of the Standard was. One respondent thought it was helpful; others considered it not to be relevant. One respondent thought that it would both increase diversity and lead to unnecessary disclosures.
18. In our view, the purpose of the agenda decision is to record the Interpretations Committee's discussions and reasoning behind each agenda decision. Paragraph 122 was raised in the Interpretations Committee's discussions and, consequently, we think that the agenda decision, as worded in *IFRIC Update*, reflects the reasoning behind this decision.
19. One respondent suggests that paragraph 125 of the Standard might also be relevant. In our view, we do not think it is useful at this stage to extend the Interpretations Committee's discussions on this topic. Paragraph 125 deals with

estimation uncertainty which, based on the comments received on paragraph 122, some may think is not relevant to the disclosures required by paragraph 25 of the Standard.

Explicit reason not to take the issue onto its agenda

20. Both the FRC and the AcSB comment that the agenda decision does not contain an explicit reason not to take the issue onto the Interpretations Committee's agenda.
21. This agenda decision does not contain an explicit reason because the assessment of this issue against the Interpretations Committee's agenda criteria had already been carried out. This assessment was made at the Interpretations Committee's November 2012 meeting when two papers were discussed—Agenda Paper 12B *When to disclose material uncertainties* and Agenda Paper 12C *What to disclose about material uncertainties*. Both issues met the criteria for adding them to the Interpretations Committee's agenda at that time.
22. However, at its meeting in November 2013 the IASB decided not to continue with its project to develop a narrow-scope amendment to IAS 1 on disclosure relating to going concern and removed this topic from its agenda. The purpose of this agenda decision is to close the loop by acknowledging the topic's removal from the IASB's agenda.

Lack of guidance about the nature of the required disclosures

23. Two respondents comment that the agenda decision does not refer to the nature of the disclosures that would be required in accordance with paragraph 25 of IAS 1.
24. This aspect of the requirements of paragraph 25 of the Standard was not discussed by the Interpretations Committee at its March 2014 meeting. In the light of the IASB's decision not to proceed with this project, we do not consider it worthwhile to extend the Interpretations Committee's discussions on this topic.

Distinguishing between the disclosure hurdle and the basis of preparation hurdle

25. The FRC recommends that the Interpretations Committee should reword the agenda decision so that it distinguishes the hurdle that is required for management to conclude that the going concern basis for the preparation of the financial statements is appropriate from the hurdle about whether disclosures about going concern are required.
26. This discussion would have featured in any proposals about disclosures relating to going concern. Because the IASB has decided not to develop those proposals, we do not think that it is worthwhile for the Interpretations Committee to attempt at this time to clarify the distinction between the disclosure hurdle and the basis of preparation hurdle.

Staff recommendation

27. We do not recommend revising the wording of the agenda decision with respect to the following issues raised in the comment letters for the reasons noted above:
 - (a) reference to other paragraphs of the Standard (see paragraphs 17-19 above);
 - (b) lack of guidance about the nature of the disclosures required (see paragraph 24 above); and
 - (c) distinguishing between the disclosure hurdle and the basis of preparation hurdle (see paragraph 26 above).
28. In accordance with our analysis in paragraphs 21-22 (above), we do recommend including a specific reference to the removal of this topic from the IASB's agenda, as noted below, in order to clarify why this topic is no longer on the Interpretations Committee's agenda.

The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue.

At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments and removed this topic from its agenda.

Question for the members of the Interpretations Committee

Questions

1 Do you agree with the staff recommendations:

(a) not to revise the wording of the agenda decision in respect of

(i) references to other paragraphs in the Standard;

(ii) lack of guidance about the nature of the disclosures required; and

(iii) distinguishing the disclosure and basis of preparation hurdles?

(b) to revise the agenda decision to include a reference to the IASB removing this topic from its agenda?

2 Do you agree with the revised agenda decision as drafted in Appendix 1 to this paper?

Appendix 1 Tentative agenda decision—with new text inserted, underlined**IAS 1 *Presentation of Financial Statements*—disclosure requirements relating to assessment of going concern**

The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments and removed this topic from its agenda.

The staff reported the results of the IASB's discussion to the Interpretations Committee. When considering this feedback about the IASB's decision, the Interpretations Committee discussed a situation in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However reaching this conclusion, that there was no material uncertainty, involved significant judgement.

The Interpretations Committee observed that paragraph 122 of IAS 1 requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Interpretations Committee also observed that in the circumstance discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.