

STAFF PAPER

25 March 2014

IFRS Interpretations Committee Meeting

IFRS IC: Nov 2012, Jan 2013, Jan 2014.
IASB: March 2013, November 2013

Project	Disclosure Requirements Relating to Assessment of Going Concern		
Paper topic	Tentative Agenda Decision		
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Introduction

1. IAS 1 *Presentation of Financial Statements*, paragraph 25, requires that management make an assessment of an entity's ability to continue as a going concern. At the January 2014 IFRS Interpretations Committee meeting, we reported to the Interpretations Committee on the outcome of the IASB's discussions about the disclosures required in respect of an entity's assessment of going concern. The IASB decided in November 2013 not to proceed with proposals designed to address diversity in practice regarding when disclosures should be made about material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. There were a number of reasons for the IASB's decision, and these were reported to the Interpretations Committee in Agenda Paper 7 for the January meeting¹.

Background

2. The IASB's work on this issue had been as a consequence of a recommendation from the Interpretations Committee in March 2013. The Interpretations

¹ <http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/January/AP07-Going%20concern%20-%20feedback.pdf>

Committee recommended that the IASB undertake a narrow-scope amendment to improve the disclosure requirements about material uncertainties related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. The Interpretations Committee had made this recommendation in response to a submission received that identified concerns about a lack of clarity and about diversity in practice in this area.

3. The Interpretations Committee had recommended, among other things, that separate disclosure be required about the material uncertainty and about management's remedial actions to address such a material uncertainty, the so-called 'gross approach' to this disclosure. At their March 2013 meeting the IASB asked the staff to further develop the amendment proposed by the Interpretations Committee. The revised proposed amendment was discussed by the IASB in November 2013.

January 2014 Interpretations Committee discussion

4. At the January meeting some Interpretations Committee members expressed concern about the IASB's decision not to proceed with this project in the light of the significance of these issues for some entities.
5. During the discussion some of the Interpretation Committee members noted the relevance to this issue of the existing disclosure requirements set out in paragraph 122 of IAS 1. This paragraph requires disclosures about significant judgements made in applying the entity's accounting policies.
6. The Interpretations Committee's discussion echoes messages received in outreach, reported to the Interpretations Committee in Agenda Paper 12A of its November 2012 meeting:

25 Some suggested that this disclosure was already covered by the requirements of IAS 1.22 (disclosure of critical assumptions made in the preparation of the financial statements) or IAS 1.15 (fair presentation) or the requirements of other Standards, such as IFRS 7 *Financial*

Instruments: Disclosure 39(c) (disclosure on how an entity manages liquidity risk).

7. During the discussion at the Interpretations Committee it was noted that there could be circumstances when there has been a ‘close call’ and on balance management has concluded that no material uncertainty exists but there were positive and negative factors that required significant judgement in order to conclude.
8. The observation was made that there should be more disclosure about these judgements, but particularly when there is a ‘close call’ about whether there is material uncertainty and management concludes on balance there is not. It was noted that disclosure of this judgement is an example of the application of paragraph 122 of IAS 1 and that it would be helpful to highlight this.

Current requirements

9. The disclosure requirements in paragraph 122 of IAS 1 that were referred to are as follows:

An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Staff recommendation

10. We note that the IASB decided not to proceed with the proposed amendment to IAS 1 in relation to the disclosures required about material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. We also note the observations made in the January Interpretations Committee meeting about the applicability of the disclosures required by paragraph 122 of IAS 1 when significant judgements have been made

in assessing material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

11. We recommend that, in drawing this issue to a close, the Interpretations Committee highlights in an agenda decision the disclosure requirements in paragraph 122 of IAS 1 and their applicability to the judgements made by management when assessing and concluding that there are no material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. Our proposed wording for the agenda decision is included in appendix A.

Questions for the Interpretations Committee

Does the Interpretations Committee agree with the staff recommendation to close this topic by issuing an agenda decision?

Does the Interpretations Committee agree with the proposed wording of the tentative agenda decision set out in the appendix?

Appendix A

Draft Tentative Agenda Decision

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.

In analysing this issue, the Interpretations Committee noted diversity in practice in relation to whether this disclosure should be made before considering planned mitigating actions (a 'gross' approach) or whether this disclosure is needed only if significant doubt remains after considering planned mitigating action (a 'net' approach). The IASB discussed this issue in November 2013 but decided not to propose an amendment to address this issue for a number of reasons, including concerns that such an 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

The Interpretations Committee noted that, in the light of IASB discussions on this issue in November 2013, this issue was too broad to be addressed through a narrow-scope amendment to IFRSs or an interpretation. Consequently the Interpretations Committee [decided] to remove this issue from its agenda.

When considering this issue, the Interpretations Committee discussed a situation in which management of the entity has considered the 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. 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 judgement made in concluding that there are no material uncertainties related to events or conditions that

may cast significant doubt upon the entity's ability to continue as a going concern once the feasibility and effectiveness of planned mitigation was also considered. The Interpretations Committee noted that the requirements in IAS 1 relating to this disclosure are sufficient and that no amendment or Interpretation is required.