Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Going Concern Disclosures**	**Meeting**	AASB April 2021 (M180)
Topic:	**Analysis of feedback from stakeholders and staff recommendations**	**Agenda Item:**	11.0
		Date:	1 April 2021
Contact(s):	James Wake jwake@auasb.gov.au Shachini Dassanayake sdassanayake@aasb.gov.au Helena Simkova hsimkova@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Consider feedback and next steps

Objective of this paper

1 The objective of this agenda item is:

(a) to **inform** the Board of the feedback received from stakeholders on the adequacy of current going concern disclosures and the concerns about the lack of guidance for the non-going concern basis of preparation and to provide a staff analysis of the key issues raised by stakeholders;

(b) for the Board to **consider** the staff recommendations; and

(c) for the Board to **provide feedback** on the outline of the thought-leadership paper and the next steps for this project.

Attachments

Agenda Paper 11.1	Summary of AASB local outreach feedback [Board only – included in the supplementary folder]
Agenda Paper 11.2	Summary of international feedback – IFASS October 2020, AOSSG annual meeting November 2020 and IFASS March 2021 [Board only – included in the supplementary folder]

Structure

2 This paper is structured as follows:

(a) Background

(b) Summary of staff recommendations

(c) Outreach process and list of participants

(d) Other developments since the November meeting

(e) Summary of feedback received, staff analysis and recommendations

(f) Proposed outline of the thought-leadership paper

(g) Next steps

(h) Appendix A: Current requirements in IAS 1

Background

Reasons for bringing this paper to the Board at this meeting

3 At its June 2020 meeting, the Board noted the New Zealand Accounting Standards Board's (NZASB) proposals to add additional disclosures relating to going concern uncertainties and judgements. At that time, the Board decided not to add a corresponding project to the AASB's Work Program on the basis that the project did not meet the requirements of the AASB's For-Profit Entity Standard-Setting Framework. Instead, the Board decided to undertake a longer-term project focussed on influencing the IASB to undertake a fundamental review of the requirements related to the going concern assessment, disclosures and the basis of preparation where the going concern assumption is no longer appropriate (see AASB Action Alert).

4 In October 2020, the AASB and NZASB staff made a joint presentation at the IFASS (International Forum for Accounting Standard Setters) meeting on the need for a project by the IASB to address going concern issues.

5 At its November 2020 meeting, the Board decided to develop a thought-leadership paper addressing:

(a) the issues and available evidence regarding the adequacy of going concern disclosures currently required by Accounting Standards and the basis of preparation where the going concern assumption is no longer appropriate; and

(b) recommendations on how the IASB could address the issues identified.

The Board also decided to address its findings in its submission to the IASB's upcoming agenda consultation, which is expected to be issued by the IASB in March 2021 for comment (See AASB Action Alert).

6 Staff have provided a summary of the current going concern disclosures requirements in IAS 1 *Presentation of Financial Statements* for the Board's reference in Appendix A of this paper.

7 This paper analyses the feedback received and provides staff recommendations and next steps for the project. The summary of the detailed feedback is included in Agenda paper 11.1 (local feedback) and Agenda paper 11.2 (international feedback). Where appropriate, similar feedback is aggregated together.

Relevant previous discussions at IFRIC and IASB

8 Issues and concerns about the going concern disclosures have been raised with the IASB in the past and discussed by both the IASB and the IFRS Interpretation Committee (IFRS IC, the Committee).

9 In 2012, the Committee considered a request for clarification on the requirements in IAS 1 which require disclosure of the uncertainties when management is aware of material uncertainties about an entity's ability to continue as a going concern. The scope of the Committee's discussions was limited to two specific elements – when an entity should be required to disclose information about material uncertainties and what to disclose about those uncertainties.

10 At its November 2012 meeting, the Committee tentatively decided that these two questions should be addressed through a narrow-scope amendment to IAS 1 and in January 2013 the Committee recommended to present revised proposals to the IASB for consideration.

11 In March 2013, the IASB tentatively decided to further develop the Committee's proposals[1] and in November 2013 it discussed the basis[2] on which the amendments would be developed. However, many IASB members were concerned 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.

12 Consequently, the IASB decided not to develop these proposals further and removed this topic from its agenda and the Committee did the same.

13 In March 2014, the Committee further 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 but concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. The committee highlighted that paragraph 122 of IAS 1 requires disclosure of the judgements made in applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The committee further observed that in the circumstances 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 (See July 2014 IFRS IC update for the agenda decision). This was further elaborated in the IFRS Foundations latest guidance on going concern (See paragraph 25).

14 Finally, in February 2021, the Committee discussed a request about the accounting applied by an entity that is no longer a going concern. The request asked whether such an entity:

(a) can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and had not previously prepared financial statements for those periods, and

(b) whether the entity restates comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously issued financial statements for the comparative period on a going concern basis.

15 The Committee tentatively decided not to add this project to its agenda, on the basis that that the principles and requirements in IFRS provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis (question (a) above), and that it has not observed any diversity in practice in relation to question (b). The AASB noted this tentative agenda decision at the meeting in

1 The proposed amendment would have:

- retained the guidance relating to going concern as a basis for the preparation of the financial statements substantially unchanged;
- provided guidance on how to identify material uncertainties; and
- contained requirements about what to disclose about material uncertainties.

2 At this meeting, the IASB discussed the basis on which the proposed amendment would be developed:

- 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; and
- disclosure would be required even if management judged that effective and feasible mitigating actions were available that were sufficient to avoid liquidation or cessation

February and agreed to write a submission to the Committee expressing support for the tentative agenda decision (see Agenda paper 13.0.2 for the AASB submission).

Summary of staff recommendations

16 To help with the Board discussion, staff have set out below the recommendations about the main points to be raised in the thought leadership paper. The detailed staff analysis and reasons for these recommendations are provided in paragraphs 28-68.

<table>
<tr><th>Issue 1 – Adequacy of current going concern disclosures (see paragraphs 31-52 for discussion and staff analysis)</th><th>Issue 2 – Lack of guidance on non-going concern preparation (see paragraphs 53-68 for discussion and staff analysis)</th></tr>
<tr><td>On balance, after considering the views of a range of Australian and international stakeholders, staff recommend expressing the following two options as recommendations for the IASB in the thought leadership paper, and also the AASB's submission to the IASB in relation to the agenda consultation:

Option 1: Revisiting the existing standard.

a) Staff recommend considering the possibility of including specific examples and more explicit guidance to preparers on how to assess going concern in the Application Guidance in IAS 1 to give the guidance more prominence and authority. In particular:

• providing guidance to preparers on how to assess whether there are significant doubts about going concern, what mitigating actions may be considered and whether material uncertainties remain after that assessment [also add illustrative examples of events and conditions]; and

• providing guidance on how the general requirements in paragraph 122 (significant judgements) and paragraphs 125-133 (sources of estimation uncertainty) of IAS 1 are applicable when applying paragraphs 25-26 of IAS 1 to ensure entities disclose the key factors which have led to their assessment that the entity is (or is not) a going concern.

Staff acknowledge that the current IAS 1 does not have a section for Application Guidance. However, as the IASB is currently in the process of replacing IAS 1 as part of the Primary Financial Statements (PFS) project, staff consider that it is appropriate consider including Application Guidance on going concern disclosures in IAS 1.

b) However, if the IASB decides not to add a section of Application Guidance (AG) to IAS 1, staff</td><td>On balance, after considering the views of a range of Australian and international stakeholders, staff recommend expressing the following views in the thought leadership paper, and also in the AASB submission to the IASB in relation to the agenda consultation. Staff recommend that the IASB initiates a research project to assess:

a) the situations in which financial statements are prepared on a non-going concern basis and how common they are;

b) the extent to which local legislation and regulations regarding liquidation and solvency affect the basis of preparation of these financial reports and their content;

c) who are the primary users of these financial statements and what are their information needs; and

d) the extent of current diversity in practice and therefore the need for standard setting in this area.</td></tr>
</table>

consider that specific examples and more explicit guidance to preparers on how to assess going concern could possibly be included in either Implementation Guidance (IG) or Illustrative Examples (IE) (however, staff acknowledge that IE would also be a new section unless they are developed during the PFS project for other areas of the standard in IAS 1). **Option 2: Provide additional guidance via education materials.** If the IASB decides not to adopt option 1, staff recommend (at a minimum) that the IASB expands the educational material issued in January by providing more explicit guidance to preparers on how to assess going concern. For example, it may be useful to have illustrative examples of events and conditions that may cast doubt on the entity's ability to continue as a going concern and mitigating factors that could be considered when determining whether there are material uncertainties that would need to be disclosed, similar to what is provided in ISA 570 paragraphs A3-A6.	

Outreach process and list of participants

<u>AASB staff presentations at international meetings</u>

17 AASB and NZASB staff jointly presented at the following international meetings where valuable feedback was obtained from the other national standards setters;

(a) IFASS meeting October 2020;

(b) AOSSG (Asia-Oceanian Standard-Setters Group) annual meeting November 2020; and

(c) IFASS meeting March 2021.

18 A summary of feedback received at the IFASS October 2020 meeting was shared with the Board at its November meeting. A summary of feedback received at all three international meetings along with staff analysis is included in paragraphs 28-30 of this paper.

<u>Local outreach</u>

19 During February-March 2021, staff conducted one-on-one telephone interviews with several stakeholders who had expressed an interest in participating and sharing their views on the adequacy of current going concern disclosures and concerns about the lack of guidance for the non-going concern basis of preparation. A few stakeholders who were unable to attend the telephone interviews provided their responses in writing.

20 The interviews were based on 4 questions targeting mainly two areas, being the adequacy of current going concern disclosures and the lack of guidance for the non-going concern basis of preparation.

21 The staff analysis included in this paper is based on the views of those stakeholders (referred to as 'participants' in the rest of this paper) who are known to apply, analyse, audit, regulate or otherwise use the IFRS requirements in relation to going concern disclosures and/or the related financial statements.

22 The number of participants within each of these categories is outlined in the following table:

Representative Group	Total participation
Audit firms	10
Users including analysts and investors	9[3]
Preparers	2
Professional bodies	2
Regulators/standard-setting bodies	3
Total	**26**

23 Throughout this paper, collective terms are used with the following broad and approximate meanings:

(a) Most Almost all; approximately 80%

(b) Majority Approximately 60-80%

(c) Many Approximately 40-60%

(d) Several Approximately 20-40%

(e) A few Approximately less than 20%

Unless stated, use of the above terms does not necessarily indicate that the remaining participants expressed an opposing view.

Other development since the November meeting

24 As noted in November, four Academics (Michael Bradbury, Neil Fargher, Brad Potter and Stephen Taylor) from the AASB Academic Advisory Panel (as well as the AASB and NZASB) are working on a research paper titled *Management Disclosures Regarding the Viability of an Entity as a Going Concern: a Synthesis and a Case for Change*. A brief verbal update on the preliminary findings from this research will be provided at this meeting.

25 The IFRS Foundation published educational material on the application of the going concern requirements of IFRS Standards in January 2021. The educational material notes that:

(a) Management's assessment of going concern is required to cover at least 12 months from the reporting date but this is a minimum period, not a cap.

(b) The assessment must be updated to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue.

(c) Going concern assessments will often be subject to significant assumptions and judgements which would need to be disclosed under the general requirements of IAS

3 Two of the users responded partially in their capacity as a preparer of financial statements and one preparer responded partially in their capacity as a user.

1 in addition to the specific going concern disclosures required in paragraph 25 of IAS 1.

26 The guidance highlights the relevance of other 'overarching' disclosure requirements in IAS 1 and how they interact with the specific going concern requirements. It also explains how to assess whether the financial statements can be prepared on a going concern basis, ie what factors preparers should consider, how far to look out etc. In terms of the disclosures, it provides examples of the type of information that might need to be provided and confirms that while there are no specific disclosure requirements for those particular disclosures, they would already be required under the general provisions in IAS 1.

27 The document further notes that going concern has been a topic for discussion among accounting standard setters, including in Australia and New Zealand, and the International Auditing and Assurance Standards Board, and that the topic has been identified as a potential agenda item to be covered in the IASB's Third Agenda Consultation issued on 31 March 2021.

Summary of feedback received, staff analysis and recommendations

Analysis of feedback received from the participants at the IFASS and AOSSG meetings
(See agenda paper 11.2 included in the supplementary folder for detail feedback)

28 In summary, the following overall comments were made by IASB representatives[4]:

- (a) With respect to going concern disclosures, there are perceptions that the requirements in IAS 1 to disclose material uncertainties (paragraphs 25-26) and significant judgements, assumptions about the future and major sources of estimation uncertainty (paragraphs 122 and 125) are sufficient and work well and thus there may be no problems to address.
- (b) Objectives of the ISAs and IFRSs are quite different. Auditors are required to use professional judgement to opine on management's judgements. Hence, they need more guidance which is provided in the ISAs.
- (c) It will be important to be mindful of the IASB's Disclosure Initiative project in proposing any changes, and not to undermine the objectives of that project. For example, consider whether developing additional disclosures could promote a disclosure checklist mentality and contribute to the disclosure overload.
- (d) It is acknowledged that there is a lack of guidance in IFRS standards as to how the basis of preparation should be adjusted when an entity is no longer a going concern. However, whether that is something that the IASB can address would be a question of priority, given the many other topics in the IASB's project pipeline.
- (e) The IASB discussed proposed amendments to IAS 1 in relation to Going Concern back in 2012/2013 but the Board decided to not to proceed with the proposed amendments and the project was terminated. Thus, it is important to understand whether there is any new information or solutions and why the Board would come to a different conclusion now. There is also a question whether this is a standard-setting issue or more a compliance/enforcement issue.

29 The AASB and NZASB's recommendations for the IASB to undertake a fundamental review of the going concern disclosures and to evaluate the need to develop requirements relating to the basis of accounting where the going concern assumption is no longer appropriate were

4 The views expressed were personal views and do not necessarily represent the views of the IASB.

generally supported by IFASS members (at October 2020 meeting and March 2021 meeting) and AOSSG members (at November 2020 meeting).

30 In summary, the following overall comments were made by the individual jurisdictions:

(a) Several jurisdictions agreed that the IASB should undertake a project to improve current going concern disclosures. and a few jurisdictions noted that this is an International issue that should be addressed by the IASB and not by the local standard setters.

(b) One jurisdiction observed that the IASB must act quickly to avoid domestic standard-setting by national standard setters. However, another jurisdiction thought that accounting standards should not be written for the pandemic, even though this will be a challenge for years to come yet.

(c) One jurisdiction observed that any additional specific disclosures seem opposite to the disclosure initiative project currently underway. Another jurisdiction highlighted that IFRS are principle-based and that the IASB should continue to maintain this approach, even though they acknowledged that there is some confusion among the stakeholders as presented by the AASB and NZASB. This jurisdiction also noted that many corporate regulators already prescribe certain going concern disclosures.

(d) Another jurisdiction liked to have alignment between auditing and accounting standards but thought that the IASB should carry out research to understand the diversity in practice.

(e) One jurisdiction specifically mentioned concerns about entities applying an overly narrow focus on 12 months from the reporting date despite the IASB's guidance.

(f) In relation to the non-going concern basis of preparation, one jurisdiction noted that the IASB would need to consider various jurisdictions globally which may have different local regulations on this matter and was concerned whether the IASB could address all local variations for liquidation. Another jurisdiction thought the should IASB carry out research to consider various jurisdictions globally where local regulations are already in place.

<u>Analysis of feedback received from local participants</u>
(See Agenda paper 11.1 included in the supplementary folder for detail feedback)

Issue 1 – Adequacy of current going concern disclosures

<u>Summary of feedback</u>

<u>Adequacy of current going Concern disclosures</u> **Q1a.** ***Participants other than users*: Do you think the current disclosure requirements in relation to going concern in IFRS together with the educational material recently issued by the IFRS Foundation are adequate? If not, why not?** ***Users*: Based on your experience, do you generally get sufficient information in the financial statements about management's assessment of the going concern of the entity so you can make required decisions as a user of such financial statements? In particular, do entities provide sufficient details about the events and conditions that cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions?**

Q1b.

Are you concerned that the auditing standards include more detailed disclosure requirements about going concern than the accounting standards?

31 There were mixed views from the participants on the adequacy of the current going concern disclosure requirements in IFRS and the recent guidance issued by the IASB.

Participants other than users

32 Many of the participants in this group believed that the going concern disclosure requirements in IAS 1 are holding up and that they are adequate when combined with the recent guidance provided by the IASB and guidance developed by the audit firms. One participant noted that in their view the going concern disclosures in Australia were good over the past year despite the significant challenges posed by COVID-19. As such, these participants believed that the key issues underlying going concern disclosures (if any) may be related to compliance with the existing requirements, and hence be more of an enforcement issue, rather than due to fundamental deficiencies with the standards themselves.

33 However, there were also several participants that did not consider the current disclosure requirements to be sufficient as they are not prescriptive enough as to what and how much information to provide. Participants in this group also thought that preparers need more guidance on how to assess going concern and one participant suggested that a separate accounting standard for going concern, equivalent to the auditing standard, could be useful.

34 Several participants raised concerns that there is too much focus on the 12-months period from the reporting date and some reluctance from preparers to consider a longer period when assessing going concern. These participants thought additional guidance to clarify these requirements would be useful. One participant thought that the requirements in IAS 1 should be aligned with the requirements in ISA 570 and refer to 12 months from the date of authorisation of the financial statements.

35 A few participants noted that the judgements made by preparers when assessing going concern, including situations where there is no significant uncertainty related to going concern, are not always adequately disclosed and that this should be addressed either by including more specific disclosure requirements in the standards or by providing educational guidance.

36 A few participants noted that while the recent educational material released by the IFRS Foundation was useful (although considered reactive rather than proactive by one participant), it would be better if some of the discussion and requirements from these materials were explicitly included in the accounting standards.

37 However, one participant stated that the disclosures could be improved through further education rather than by adding more requirements and one participant said they would be supportive of education material similar to what the AASB and AUASB provided on climate change.

38 One participant thought that disclosures are not the IASB’s biggest priority at present and another noted to be careful about developing disclosure requirements that are reflective of the current economic conditions caused by COVID-19. Any solution developed must have recurring usefulness and value in a post-COVID-19 environment.

39 Several participants also pointed out that this issue should be addressed by the IASB and not by local standard setters.

Users

40 Many of the users that participated in the outreach stated that the going concern disclosures alone are insufficient to make informed economic decisions. While they are effective at 'raising a red flag' they do not provide enough information alone to assess the significance of the going concern issues. As such, financial statement users are required to consult other parts of the financial statements or external sources (e.g. analyst reports) to gain a complete picture of an entity's ability to continue to operate as a going concern.

41 Additionally, several participants were concerned that going concern disclosures are not specific enough and often fail to emphasise the critical factors which result in an entity being a going concern or imply that the uncertainty is caused by a temporary issue. As such, there is concern that genuine going concern issues faced by entities may be overlooked or not seen as serious by financial statement users due to the manner of their disclosure.

42 However, there were also several users that were of the view that the current disclosures are adequate, and that this may be more of an enforcement issue than a fundamental deficiency in the accounting standards themselves. A few participants thought that it was important to balance the desire for more information with information overload. One participant did not have any desire for introducing more checklists for directors to follow. Another participant noted that for listed entities the continuous disclosure requirements in Australia ensure that information is available before financial statements are issued. One participant thought that too detailed disclosures could put too much attention on the banks as the source of financial support where there is uncertainty about the going concern of an entity.

43 Overall, the majority of financial statement users were supportive of additional disclosures on going concern to improve their ability to make economic decisions about their investments. Specifically, participants would like more detail in reporting on why an entity is/is not a going concern, including the factors which could put pressure on an entity's ability to continue as a going concern, the mitigating actions being taken by management to ensure the entity will be able to continue as a going concern and the entity's working capital requirements that are needed to continue operations. They further suggested that cross referencing from other parts of the annual report to the going concern disclosures in the financial statements may also be helpful.

Disclosure requirements in the auditing standards

44 When asked about the more detailed disclosure requirements in the auditing standards, one participant thought that this puts the burden on the auditors. A few other participants noted that the recent amendments made in NZ have increased the consistency between the requirements related to going concern for accounting and auditing standards and that similar amendments to IAS 1 would be welcome, although one participant thought that such amendments would not be critical. However, a few other participants did not have any major concerns in this respect. The differences in the requirements are seen as reasonable as they provide auditors with more prescriptive guidance to assist them in determining the questions to ask management.

45 The other participants in this group did not offer any views on question 1b.

Staff analysis

46 From the above summary, staff have identified the following general themes of the feedback:

(a) there are mixed views on whether disclosure requirements in the current standards are adequate, need to be revisited, or whether the concerns can be addressed through additional guidance or further educational material;

(b) several participants thought that preparers need more guidance on how to make the going concern assessment and a clarification that the going concern assessment is not capped at 12 months from the reporting date;

(c) only a few participants specifically asked to align the disclosure requirements of IAS 1 with those in ISA 570;

(d) if standard setting is required this should come from the IASB and not locally; and

(e) going concern disclosures would not be highest priority for the IASB.

47 There appears to be some evidence from our outreach that the current requirements may need to be revisited and there was some support from the national standard setters for amendments to the requirements in IAS 1.

48 Staff have therefore considered whether to recommend supplementing the existing requirements in IAS 1, for example with more specific disclosures similar to the amendments made by the NZASB. While amendments to IAS 1 were already considered and rejected in 2013, many of the concerns raised by the IASB in November 2013 would also apply to the disclosures that are effectively required to satisfy the requirements of ISA 570. These disclosures are now commonly included in the financial statements of many entities and we have not heard that this has created any of the issues that the Board members were concerned about at that time.

49 However, staff are also cognisant of the IASB's disclosure initiative and aim to reduce rather than increase the disclosure requirements. Considering that there was no overwhelming support for standard setting in this area, staff are of the view that the concerns raised by stakeholders could be addressed through guidance rather than creating more mandatory disclosure requirements.

50 While staff acknowledge that the IASB already issued educational material on the going concern assessments and disclosures in January 2021, staff are of the view that it only provides a high-level guidance. Hence, staff consider that it may be helpful for stakeholders if this guidance could be elevated by adding more specific examples and being included in the standard in the form of application guidance, implementation guidance or illustrative examples.

51 Several participants raised also concerns about an inappropriate focus by preparers on 12 months from the reporting date when assessing going concern. However, staff note that IAS 1 paragraph 26 refers to 'the future, which is at least, but is not limited to, twelve months from the end of the reporting period'. While it may help further confirming this point in Implementation Guidance or Illustrative Examples in IAS 1, staff do not believe that the existing disclosure requirements in the standard needs further clarification in this regard.

Staff recommendations

52 On balance, after considering the views of a range of Australian and international stakeholders, staff recommend expressing the following two options as recommendations for the IASB in the thought leadership paper, and also the AASB's submission to the IASB in relation to the agenda consultation:

Option 1: Revisiting the existing standard.

a) Staff recommend considering the possibility of including specific examples and more explicit guidance to preparers on how to assess going concern in the Application Guidance in IAS 1 to give the guidance more prominence and authority. In particular:

- providing guidance to preparers on how to assess whether there are significant doubts about going concern, what mitigating actions may be considered and whether material uncertainties remain after that assessment [also add illustrative examples of events and conditions]; and

- providing guidance on how the general requirements in paragraph 122 (significant judgements) and paragraphs 125-133 (sources of estimation uncertainty) of IAS 1 are applicable when applying paragraphs 25-26 of IAS 1 to ensure entities disclose the key factors which have led to their assessment that the entity is (or is not) a going concern.

Staff acknowledge that the current IAS 1 does not have a section for Application Guidance. However, as the IASB is currently in the process of replacing IAS 1 as part of the Primary Financial Statements (PFS) project, staff consider that it is appropriate to consider including Application Guidance on going concern disclosures in IAS 1.

b) However, if the IASB decides not to add a section of Application Guidance (AG) to IAS 1, staff consider that specific examples and more explicit guidance to preparers on how to assess going concern could possibly be included in either Implementation Guidance (IG) or Illustrative Examples (IE) (however, staff acknowledge that IE would also be a new section unless they are developed during the PFS project for other areas of the standard in IAS 1).

Option 2: Provide additional guidance via education materials.

If the IASB decides not to adopt option 1, staff recommend (at a minimum) that the IASB expands the educational material issued in January by providing more explicit guidance to preparers on how to assess going concern. For example, it may be useful to have illustrative examples of events and conditions that may cast doubt on the entity's ability to continue as a going concern and mitigating factors that could be considered when determining whether there are material uncertainties that would need to be disclosed, similar to what is provided in ISA 570 paragraphs A3-A6.

Question to Board members	
1	Do Board members agree with the staff recommendations in paragraph 52? If not, which recommendations do Board members not agree with and what other recommendations do Board members suggest should be made to the IASB?

Issue 2 – Lack of guidance on non-going concern preparation

Summary of feedback

To all the participants: Non-going concern basis of preparation

Q2. If you are involved in the preparation, audit or review (as a user) of financial statements of entities that are no longer a going concern, is the current lack of guidance in the accounting standards for the preparation of such financial statements a concern to you? If so, what causes those concerns?

53 Several participants (the majority of the users) were largely unfamiliar with the non-going concern basis of preparation as they do not usually see financial statements that are prepared on that basis. These participants therefore did not have any comments.

54 Several participants said that guidance on the non-going concern basis of preparation would be useful to ensure consistency and comparability across financial statements. They were of the view that such guidance would be particularly helpful for smaller audit firms who lack

access to the internally developed guidance available to auditors in larger firms. Any such guidance should focus on clarifying when to use the alternative bases of preparation and the types of disclosures required to ensure users have enough information to make informed judgements.

55 One participant noted that the imminent cessation of government subsidies provided to businesses to keep them afloat during the COVID-19 crisis may result in a significant rise in the number of entities reporting on a non-going concern basis. Thus, guidance on this would be timely.

56 One user thought that due to the lack of guidance, preparers sometimes prepare the financial statements on a going-concern basis where the wind-up of an entity is expected to take more than 12 months. This makes the analysis of the financial statements challenging as the costs anticipated to be incurred are not brought to account.

57 However, several participants said that this is not a major concern since entities under external administration are generally relieved from reporting and questions in this area are therefore rare.

To all the participants: Non-going concern basis of preparation

Q3. Do you have any views on the alternative basis of preparation when an entity is no longer a going concern? Do you believe the alternative basis should still comply with the existing IFRS conceptual framework in relation to the recognition of assets and liabilities?

58 Many of the participants who responded to this question believed that the alternative basis of preparation when an entity is no longer a going concern should still comply with the existing IFRS conceptual framework, but that this may vary dependent on the entity's specific circumstances and/or regulatory requirements.

59 Several participants believed that a suitable measurement basis for non-going concern reporting should be determined based on the purpose of the financial statements and who will be using them. One participant commented that both methods (a liquidation basis which in their view recognises assets at fire sale value (i.e a sale of goods or assets at a very low price, typically when the seller is facing bankruptcy) and provisions for wind up costs etc and a non-going concern basis which follows IFRS standards) have merits and appropriateness of each method depends on the circumstances such as purpose of the financial statements and user needs.

To all the participants: Non-going concern basis of preparation

Q4. In light of the responses to the questions above, should the IASB undertake a project to consider the requirements for the basis of preparation where the entity is no longer a going concern?

60 Overall, most participants who expressed a view on this believed that the lack of guidance on the non-going concern basis of preparation is a longstanding concern, but that it is not the most pertinent current issue for the IASB to focus on. One participant recommended the IASB undertake further research and outreach to gauge the prevalence of the issue worldwide.

61 Only one participant thought there were questionable benefits from such a project, as it may already be too late for shareholders when the entity becomes a non-going concern.

62 The participants supporting a project noted that any future solution to the issue should come as part of an IASB project rather than from the local standard-setters and should consider existing disclosure requirements more generally to address the purpose and usefulness of non-going concern financial reporting from a user's perspective.

Staff analysis

63 In summary, staff consider that the following general themes identified in the feedback should be reflected in the recommendations made to the IASB:

a) guidance on the non-going concern basis of preparation would be useful to ensure consistency and comparability across financial statements;

b) lack of guidance on the non-going concern basis of preparation is a longstanding concern but that it is not the most pertinent current issue for the IASB to focus on;

c) there is diversity in practise and mixed views as to which basis of preparation should be used; and

d) more research is needed to understand what the real issue is and extent of diversity across entities and jurisdictions.

64 While staff acknowledge that there could be a significant increase in the number of entities required to report on a non-going concern basis as a result of the COVID-19 pandemic (see paragraphs 55-56) staff do not consider this to be a valid reason to initiate standard setting, as any standard setting by the IASB will necessarily take several years by which time the current issues will be long resolved. In other words, this would not provide a 'timely' resolution of the issue.

65 Staff further acknowledge that some stakeholders thought that the alternative basis of preparation should still comply with the existing IFRS framework. However, in staff's opinion this requires further research and analysis by the IASB as this may vary dependent on the entity's and jurisdiction's specific circumstances and/or regulatory requirements (see paragraphs 58-59 for the relevant feedback by the participants).

66 Finally, staff have not heard that it is a widespread issue that entities prepare financial statements on a going concern basis longer than they should be only because there is insufficient guidance for the non-going concern basis. However, staff would envisage that any research performed by the IASB would identify if this is an area of concern.

67 In summary, staff recommend gathering more evidence to understand the real problem and extent of diversity to establish whether standard-setting is needed[5]. Therefore, staff suggest recommending to the IASB to add a research project to its work program. Staff acknowledge that adding a research project to the IASB pipeline will depend on factors such as the urgency of the problem, extent and complexity of the research needed, resourcing requirements, other projects in the current work program and interactions with other current or future projects.

Staff recommendations

68 On balance, after considering the views of a range of Australian and international stakeholders, staff recommend expressing the following views in the thought leadership paper, and also in the AASB submission to the IASB in relation to the agenda consultation. Staff recommend that the IASB initiates a research project to assess:

a) the situations in which financial statements are prepared on a non-going concern basis and how common they are;

5 As per the Evidence-Supported Standard-Setting approach adopted by the IASB, a standard-setting project should not be commenced before carrying out research to gather sufficient evidence that an accounting problem exists, that the problem is sufficiently important that standard-setting is required and that a feasible solution can be found.

b) the extent to which local legislation and regulations regarding liquidation and solvency affect the basis of preparation of these financial reports and their content;

c) who are the primary users of these financial statements and what are their information needs; and

d) the extent of current diversity in practice and therefore the need for standard setting in this area.

Question to Board members

2 Do Board members agree with the staff recommendations paragraph 68? If not, which recommendations do Board members not agree with and what other recommendations do Board members suggest should be made to the IASB?

Proposed outline of the thought-leadership paper

69 Based on the recommendations above, staff propose the following draft outline for the thought-leadership paper:

Executive Summary
Introduction
Background
Current IFRS requirements
What is the issue?
Previous IASB/IFRS IC discussions
The outreach process (international and local)
Next Steps
Summary of feedback received, analysis and AASB recommendations
Adequacy of current going concern disclosure requirements
International feedback
Local feedback
AASB recommendations
Lack of guidance on non-going concern basis of preparation
International feedback
Local feedback
AASB recommendations
Appendix A: Extract of questions provided to the participants of the international meetings
Appendix B: Extract of questions provided to the participants in outreach program in February-March 2021

Question to Board members

3 Do Board members have any feedback for staff on the suggested outline in paragraph 69?

Next Steps

70 Staff suggest the following timeline should the Board agree with staff recommendations throughout this paper.

Task	Timing
Discuss feedback with Board members	This meeting
Staff to draft the thought-leadership paper	April-June 2021
Discuss working draft of the thought-leadership paper with Board members along with the final research report findings	June 2021 meeting
Review final draft the thought-leadership paper out of session	Out of session (by a sub-committee) in August 2021
Approve the thought-leadership Paper	September 2021 meeting
Include comments in the AASB submission to the IASB Agenda Consultation	before 27 September 2021

	Question to Board members
4	Do Board members have any comments on the suggested next steps and timeline in paragraph 70?

Appendix A

Current requirements in IAS 1

a. An entity's ability to continue as a going concern is a fundamental assumption underlying the preparation and presentation of the financial statements.

b. When preparing financial statements, paragraphs 25 of IAS 1/AASB 101 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. The going concern basis of accounting is no longer appropriate if management intends to, or has no realistic alternative but to:

   - liquidate the entity; or
   - cease trading.

c. Paragraph 25 of AASB 101 further specifies that 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.

d. However, the accounting standards do not specify how the basis of preparation should be adjusted or what the revised basis should be when an entity is no longer a going concern. There are mixed views and mixed practices on many issues, including but not limited to:

   - the extent to which the accounting standards and/or the Conceptual Framework should be applied;
   - the measurement of assets (e.g. whether to measure all assets at realisable values, even if this means an increase in the carrying amounts);
   - the recognition of any new provisions (e.g. for closure costs), other liabilities and/or contingencies;
   - whether assets & liabilities should be classified in order of liquidity rather than using the current vs non-current classification;
   - whether to accrue all costs and income expected to be incurred or earned until liquidation; and
   - how to measure employee entitlements to reflect the changes in circumstances.

e. In assessing whether the going concern assumption is appropriate, management should consider all available information about the future. AASB 101 paragraph 26 specifies that management should consider information for at least, but not limited to, the next 12 months from the end of the reporting period.

f. Entities must further remember to consider the impact of any events that occur after the end of the reporting period up until the date of signing the financial report. Regardless of whether the event is considered adjusting or non-adjusting, if the entity determines after the reporting period that it intends to liquidate the entity or to cease trading, it shall not prepare its financial statements on a going concern basis (see AASB 110 *Events after the Reporting Period* paragraph 14-16). Furthermore, the disclosure requirements of AASB 101 mentioned earlier would still be relevant, even for events after the reporting period.

g. Meanwhile, there is a concern that the auditing standards expect the disclosure of information on going concern that is not specifically required by the accounting standards.

h. As per ISA 570 *(revised) Going Concern*, paragraph 19, in circumstances where a material uncertainty exists, the auditor shall determine whether the financial statements adequately disclose:

- the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern assumption;
- management's plans to deal with these events or conditions;
- that there is a material uncertainty related to these events or conditions; and
- therefore, as a result, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

i. Furthermore, there are no specific going concern disclosure requirements for 'close call' situations, for circumstances in which the conclusion that there are no material uncertainties has involved the application of significant judgement.