

IASB's Disclosure Initiative Project
Disclosure Requirements about an Assessment of Going Concern
Tentative decisions made by the IASB –November 2013

Background

1 In June 2012, the IFRS Interpretations Committee received a request for clarification of the requirements in IAS 1 *Presentation of Financial Statements* relating to 'going concern'. IAS 1 includes guidance on when financial statements should be prepared on a going concern basis and paragraphs 25 and 26 require that when management are aware of material uncertainties about events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. In particular, paragraph 25 states:

"...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..."

The submitter, the International Audit and Assurance Standards Board (IAASB), thinks that the guidance about the disclosure of these uncertainties is not clear. We understand that one possible reason for concerns about the lack of guidance in IAS 1 might relate to a view that an audit report should be required to express a view about going concern. We understand that some have concerns that it would not be appropriate for such a requirement to be imposed on an auditor in the absence of management being required to first make similar statements against which an auditor would audit.

IFRIC Submission from the IAASB

2 In its submission to the Interpretations Committee, the IAASB identified three areas in which 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?

- 3 In regard to the first area, the IAASB notes that it is not clear whether proximity to liquidation is, or should be, the same threshold for the disclosure of material uncertainties relating to going concern. It further notes that a potential for differing views 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.
- 4 In regard to the second area, the IAASB notes it is very important that preparers and auditors understand the threshold for the disclosure of material uncertainties and apply it consistently. It also points out that the interaction of the terms “material”, “may,” and “significant”, in the third sentence of paragraph 25, make this a very complex concept and can lead to confusion in practice.
- 5 In regard to the third area, the IAASB notes that 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.

IFRIC Outreach

- 6 In August 2012 the IFRIC undertook outreach, requesting information addressing the following two questions¹:

- A) In your jurisdiction, how common are the issues raised in regards to item (1) above? If it occurs, could you provide us with information that the Committee could use to assess how widespread the issue is? [AASB staff comment: *this question is referring to the issue identified in paragraph 2(a) above*]
- B) In your view, is there diversity in practice on how an entity discloses the material uncertainties “that may cast significant doubt upon the entity’s ability to continue as a going concern”? Please describe the predominant approach that you observe in your jurisdiction. If you have examples to illustrate your reasons, that would be useful.

- 7 As noted in IASB agenda paper 8B (November 2013), the outreach identified the following in regards to going concern disclosure:
 - (a) disclosures are either made too late to be useful or are boilerplate disclosures that do not provide users with relevant information;

1 AASB staff provided feedback to the Interpretations Committee.

- (b) the deficiency in disclosure has become more apparent as a result of the financial crisis;
- (c) many respondents think that it is not clear in IAS 1 when disclosures about going concern should be made;
- (d) respondents in a few jurisdictions think that no disclosures are required if management conclude that going concern is an appropriate basis for preparation of the financial statements, because planned mitigating actions are sufficient to remove the significant doubt about an entity's ability to continue as a going concern; and
- (a) in other jurisdictions disclosure may be driven by auditors who rely on the disclosure requirements in paragraph 17 of ISA 570 *Going Concern* to trigger disclosure by their clients and this occurs at the net assessment phase.

IFRIC Response

8 At the November 2012 meeting, the Interpretations Committee reviewed the responses to the outreach and the suggested amendments to IAS 1 proposed by IFRIC staff and tentatively decided to prepare a proposed narrow-focus amendment to IAS 1, for consideration of the IASB addressing:

- (a) When should an entity be required to disclose information about material uncertainties related to events or circumstance that cast significant doubts upon the entity's ability to continue as a going concern?
- (b) What is the objective of those disclosures and what disclosures should be required?

9 The narrow focus amendments were discussed at the January 2013 Interpretations Committee meeting, at which it recommended the proposals be considered by the IASB.

IASB Response

10 At the IASB March 2013 meeting 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.²

Summary of IASB Staff Proposals

- 11 The IASB considered the matters further at its November 2013 meeting. At that meeting IASB staff expressed the following views for the IASBs consideration³:
- (a) the current requirements about going concern as a basis of preparation for the financial statements do not need to be changed in any way;
 - (b) the objective of any amendment should be to ensure that disclosures about going concern are timely and relevant;
 - (c) the basis for assessing going concern does not need to be changed in any way. Consequently, the staff recommendations would not change the current outcome of the going concern assessment;
 - (d) disclosure should be triggered by the existence of events or circumstances 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 components⁴ of the going concern assessment should be required once the events or conditions that cast significant doubt have been identified; and
 - (f) the Standard should be amended only to specify that the trigger for disclosure is 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 and that disclosures, when made, should include information about both components of the going concern assessment.

2 IASB Update, March 2013

3 IASB Agenda Paper 8B, November 2013

4 The components of going concern are: (a) identification of events or conditions that cast significant doubt upon the entity's ability to continue as a going concern; and (b) identification and assessment of mitigating actions that could be taken to avoid liquidation or cessation of trading.

IASB Board Decision⁵

- 12 The IASB discussed whether the proposed trigger for disclosure referred to in paragraph 11(d) above was appropriate.
- 13 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.
- 14 Many IASB members expressed concern, 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.
- 15 Some IASB members were not persuaded that further guidance was needed and noted that even if it were provided constituents would always want more. Some felt that it is not the role of accounting standard setters to provide such guidance. In addition, some IASB members commented that they were much more open to requiring disclosure of a good description of a company's business risks and what the company is doing to take care of the risk.
- 16 On the other hand, other IASB members felt that it was useful information for the market to assess. In addition, an IASB member noted that, with the political issue around this topic and with the financial crisis, and other organisations doing something, it would not be appropriate for the IASB to not even issue an Exposure Draft on the issue.
- 17 Following the debate among IASB members, the IASB decided not to develop the proposals further and disagreed with the staff recommendation to use the staff's views as the basis of a proposed amendment to IAS 1.
- 18 Eight IASB members voted against the staff recommendation.

5 Based on a report in IASB Daily Staff Update, 20 November 2013

AASB Staff recommendation

- 19 AASB staff think the concerns identified by IAASB could have merit in a global context and that the IASB staff views (see paragraph 11 above) appear to be an appropriate response to at least some of those concerns. On that basis, AASB staff recommend writing to the IASB expressing concern regarding the IASB's decision not to consider the proposals further.
- 20 We believe, as noted above by an IASB member, this has become a 'political' issue and constituents should have an opportunity to express their thoughts and opinions in regards to this topic prior to the IASB deciding not to develop it further.

Question to the Board

- Q1** Do you agree with the AASB staff recommendation to write to the IASB?
- Q2** If you do agree to write to the IASB, should the letter focus on technical aspects, due process or both? Staff recommend at this stage the letter should focus on encouraging the IASB to undertake further outreach/due process to gain a fuller appreciation of the issues.
- Q3** What is the process you would like to follow in drafting the letter? Staff recommend the letter be developed through the Chairman out of session.