Australian Government

Australian Accounting Standards Board

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17 January 2014

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

Re: IASB Agenda decision – Disclosure requirements about an assessment of going concern

The AASB has asked me to write to you concerning the above agenda decision made by the IASB (published in the November 2013 *IASB Update*). The AASB disagrees with the decision made by the IASB to not develop these proposals further. The AASB thinks the IASB should provide an opportunity for constituents to express their thoughts and opinions in regards to this topic. The AASB is particularly concerned that diversity in practice on this issue exists internationally, and therefore encourages the IASB to reconsider adding the issue of disclosure of going concern to its agenda.

The AASB observed that the outreach conducted by the IFRS Interpretations Committee (Interpretations Committee) staff indicates there is diversity in views as to whether and when going concern disclosures are required. As noted in November 2013 IASB Agenda Paper 8B *Disclosure requirements about an assessment of going concern: Key conclusions and examples for discussion* (para. 10), many respondents to the outreach think that disclosures about going concern are either made too late to be useful, or are boilerplate disclosures that do not provide users with relevant information. Some respondents also think that this deficiency in disclosure has become more apparent as a result of the financial crisis. In addition, it is further noted that some respondents think that no disclosures about going concern would be required if management, as a result of their going concern assessment, conclude that going concern is the appropriate basis for preparing the financial statements.

Although we are not aware of diversity in practice in Australia as to how an entity discloses material uncertainty about going concern, it is apparent that there are differences in practice between our jurisdiction and other jurisdictions. It is our understanding that the prevalent practice in Australia is for a company to disclose significant judgements and material uncertainties about assessment of going concern regardless of whether an emphasis of matter will be disclosed in the audit report.

We acknowledge that differences between jurisdictions may arise currently due to differing regulatory requirements. However, in our view, disclosure requirements relating to significant judgements and material uncertainties about assessment of going concern should be consistent across jurisdictions and should therefore be addressed as part of accounting standards.

In the Appendix to this letter we have provided extracts from the financial statements of a number of Australian companies that reflect disclosures of significant judgements and material uncertainties about assessment of going concern with no emphasis of matter. We think these examples demonstrate how the timely disclosure of company specific (as opposed to boilerplate) significant judgements and material uncertainties about an entity's assessment of going concern benefits both users and preparers and addresses many of the concerns raised in the Interpretations Committee staff outreach.

If you have any queries regarding any matters in this letter, please don't hesitate to contact me.

Yours sincerely,

Kevin M. Stevenson
Chairman and CEO

Appendix: Examples of Going Concern Disclosure

Example 1: beadell
Year ended 31 December 2012
Auditor: KPMG
Disclosure in Note 2: Basis of Preparation: Critical judgements: Going concern

Significant event disclosed, including mitigating factors. No emphasis of matter was noted in the audit report

Critical judgements

Going concern

The consolidated financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group held cash on hand and on deposit as at 31 December 2012 of $5,384,000. As at 31 December 2012, the Group had a net working capital deficit, inclusive of provisions and derivative financial instruments, of $55,091,000. For the year ended 31 December 2012, the Group incurred a loss of $42,993,000. As at 31 December 2012, the Group held total assets of $246,891,000. Cash flows from operations and investment activities were negative $157,353,000.

As at 31 December 2012, the Group was in breach of certain loan covenants and those breaches were continuing. Macquarie Bank Limited has confirmed these breaches had been waived at the reporting date and all subsequent breaches up to the date of the financial report have been irrevocably waived.

Subsequent to year end, the Group entered into amending agreements for the Group's Facility Agreements. The amending agreements have rescheduled the Group's schedule of repayments under the Facility Agreements whereby amounts due in March to July 2013 have been deferred to September to December 2013. Additionally, the amending agreements require the Group to complete a $20 million equity raising by 30 April 2013.

The directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and sourcing additional funds in accordance with the amending agreements. The cash flow forecast depends upon successful mining operations and processing activities in accordance with management's schedule and gold price and foreign exchange assumptions to enable cash flow forecasts to be achieved. Should operations not successfully achieve forecasts or forecast gold and foreign exchange rates not be achieved, the Group will require additional funding in the form of debt or equity or a combination of the two in addition to the equity raising required under the amending Facility Agreement.

Example 2: Q Technology Group Ltd
Year ended 30 June 2011
Auditor: Moore Stephens
Disclosure in Note 1: Summary of Significant Accounting Policies: Going Concern

Significant event disclosed, including mitigating factors. No emphasis of matter was noted in the audit report

The Group's financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred an operating loss after tax of $5m for the period and at 30 June 2011 had positive net assets of $9m.

The Group has prepared budgets for the forthcoming year which if achieved will ensure that the business continues to trade as a going concern and be in compliance with its financial debt covenants. The 2012 Group budget assume revenue growth of approximately 15%. In the event that forecast revenue is not achieved, notwithstanding any cost restructuring that could be undertaken, a breach of the financial debt covenants may occur. If these events occur, the Group may not be able to continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The Group is actively pursuing a major reduction in the levels of inventory and trade receivables to improve the cash flows and working capital of the business.

The company has two major lenders to the group being GE Capital (Senior Creditor) and Helmsman Capital Fund Trust IIB (Junior Creditor). GE Capital replaced National Australia Bank and Helmsman Capital Fund Trust IIB provided an additional loan as part of the funding of the acquisition of API Locksmiths in September 2010.

At 30 June 2011 the Group breached its financial debt covenants. The Senior Creditor and Junior Creditor borrowings of $3.8m have been reclassified as current liabilities. Subsequent to reporting date, the Group has renegotiated borrowing terms and received waivers from both the Senior Creditor and Junior Creditor which means that no principal repayment of borrowings to either the Senior Creditor or Junior Creditor (except for the GE term facility) are repayable before October 2012 unless there is an event of default (eg. breach of financial debt covenants).

The Group has performed a detailed budget analysis for the forthcoming financial year and are confident that in the event that sales and profit are achieved the Group will remain in compliance with all financial covenants and will generate sufficient cash flow to meet all financial obligations in the coming period.

Example 3: Q Technology Group Ltd

Year ended 30 June 2012

Disclosure in Note 1: Summary of Significant Accounting Policies: Going Concern

Significant event disclosed, including mitigating factors. Emphasis of matter was noted in the audit report

Subsequent to year end, the Group and GE Capital have signed a Deed of Variation to amend the Group's lending facilities post the sale of API Services and Solutions. The Group's revolving facilities limit will be reduced to $3.4m with a letter of credit limit of $1m and a receivables purchase facility limit of $2.4m. The Group will be required to maintain an excess in the facility of $110,000 at all times and interest at 90 day Bank bill swap rate plus 4.5% per annum. Covenants imposed by GE Capital will include Q Technology Group Limited in the reporting group. The only change to the covenants is that the fixed charge cover ratio will commence on a cumulative basis from 1 October 2012 and will have to meet a ratio ranging from 0 to 1.1 times for the period of October 2012 to May 2013. Thereafter it will be required to meet a ratio of 1.35 times.

The Group has prepared budgets for the new group post the sale which if achieved will ensure that the new business continues to trade as a going concern and be in compliance with its financial debt covenants. The Group budgets assume static revenue numbers. Management have a number of initiatives and restructure plans in place to improve the profitability and cashflow of the group in the short term. In the event that forecast revenue and profit is not achieved, notwithstanding any cost restructuring or equity issues that could be undertaken, a breach of the financial debt covenants may occur. If these events occur, the Group may not be able to continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Example 4: Samson Oil & Gas Limited

Year ended 30 June 2013

Auditor: PwC

Disclosure in Note 1: Summary of Significant Accounting Policies: Basis of Preparation

Significant event disclosed, including mitigating factors. No emphasis of matter was noted in the audit report

Statement on liquidity, capital resources and capital requirements

The Group has cash and cash equivalents of $13.17 million as at 30 June 2013 (2012 - $18.85 million) and a working capital surplus of $10.54 million (2012 - $18.25 million). The Consolidated Entity's primary use of capital resources has been the exploration and development of existing projects. The Consolidated Entity has no obligation to execute exploration activities within a set timeframe and therefore has the ability to select the timing of these activities as long as the minimum amounts required to retain tenure are met. Refer to Note 16 for further information on these commitments. Accordingly, the Consolidated Entity's actual capital expenditure can be accelerated or decelerated largely at its discretion.

Cash balances and ongoing cash generated from current operations may place limits on the entity's ability to facilitate further necessary development of existing exploration and development projects. Therefore the Consolidated Entity must extend or secure sufficient funding through renewed or additional borrowings, equity raising and or asset sales to enable sufficient cash to be available to further its development plans. The entity has been successful in raising $6.7 million (net of expenses) of additional equity post balance date (see Note 26). The Directors expect that the Consolidated Entity will be able to secure the necessary ongoing financing through one, or a combination of, the aforementioned alternatives. Accordingly, these consolidated financial statements have been prepared on a going concern basis in the belief that the Consolidated Entity will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated, for a period not less than one year from the date of signing the financial report.

Example 5: Billabong

Half Year 31 December 2012

Auditor: PwC

Disclosure in Note 1: Basis of Preparation for the half-year report

Significant event disclosed, including mitigating factors. No emphasis of matter was noted in the audit report

Debt covenant

As a result of the impairment charges in the current half-year, as at 31 December 2012, the Group would have breached its Consolidated Shareholders' Funds covenant with respect to its major banking facilities.

Subsequent to 31 December 2012, the Group's financiers agreed to an amendment to this covenant with effect from 31 December 2012 and thereafter.

As a result of the amendment not being in place at 31 December 2012, the Group has classified $269.8 million of borrowings as current liabilities on the balance sheet notwithstanding that at the date of this report they are not due to be repaid within twelve months.

Example 6: Billabong

Year ended 30 June 2013

Auditor: PwC

Disclosure in Note 1: Summary of Significant Accounting Policies: Basis of Preparation

Significant event disclosed, including mitigating factors. Emphasis of matter was noted in the audit report

Going Concern

These financial statements have been prepared on the basis that the Group is a going concern.

The Group has experienced challenging trading conditions over the past two years as a result of a decrease in consumer confidence in the key geographies in which it operates resulting in a decline in sales and margins. In addition, during the last twelve months the Group has been the subject of a number of control and refinancing proposals from multiple bidders which has resulted in prolonged periods of due diligence, created uncertainty in relation to the ownership and capital structure for the Group and prevented the Group from fully implementing its Transformation Strategy announced to the market in August 2012.

The deteriorating financial performance would have required waivers to prevent the Group breaching financial covenant thresholds contained in the agreements for the Syndicated Facility and Drawdown Facility as disclosed in Notes 22 and 25. In addition, these facilities were due to expire in July 2014. Accordingly the Group initiated a refinancing process and has made the following announcements:

> On July 16 the Company entered into binding documentation with Altamont and entities sub-advised by GSO Capital together with Altamont (the "Altamont Consortium") in relation to a US$294 million (A$325million) bridge facility together with binding documentation regarding the sale of DaKine to Altamont for a purchase price of A$70 million. As well the Company signed a commitment letter with the Altamont Consortium for a term loan of US$254 million (A$281 million), an agreement for the issue of US$40 million convertible notes to Altamont and a commitment letter with GE Capital for an asset-based multicurrency revolving credit facility of up to US$160 million (A$177 million). The proceeds of these facilities were to be used to repay the above bridge facility and provide the Group with a five year financing base to fund the operations of the Group and provide sufficient flexibility to continue implementing its turnaround strategy.
>
> On 21 August 2013 the Company entered into a revised commitment letter and certain other ancillary transaction documents with the Altamont Consortium to increase the size of the above mentioned term loan and convertible note commitment from US$294 million (A$325 million) to US$310 million (A$343 million).

Whilst it is expected that the above will result in providing the Group with a long term financing solution, the term loan and revolving credit facility are still subject to the satisfaction of a number of conditions and the successful execution of the relevant financing agreements – refer Note 41 Events Occurring After the Balance Sheet Date for details of these conditions.

The Directors believe that in the event that long term financing cannot be secured with the Altamont Consortium, then financing will be able to be secured through the Centerbridge/Oaktree Consortium alternate financing proposal. As a result of these matters, there is a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern and therefore realise its assets and discharge its liabilities in the normal course of business.

The Directors are of the opinion that the long term financing arrangements will be successfully secured and accordingly no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2013. As a result, no adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Extract from audit report

Basis of Preparation – Going concern

Without qualifying our opinion, we draw attention to Note 1(a) to the financial report. The consolidated entity's new term loan and revolving credit facility with the Altamont Consortium are subject to a number of conditions and the successful execution of the financing agreements. Note 1(a) also states that if the Altamont Consortium long-term facilities cannot be secured then the Directors believe that alternate funding under the Centerbridge/Oaktree Consortium proposal will be able to be secured. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.