



Project:	Going Concern	Meeting:	AASB November 2020 (M178)
Topic:	Feedback form IFASS participants and next steps	Date of this paper:	28 October 2020
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		Decision-Making:	Medium
		Project Status:	Research and planning

Objective of this agenda item

- 1 The objective of this agenda item is:
 - a) to **inform** the Board of feedback received from participants at the International Forum of Accounting Standard Setters (IFASS) meeting held in October 2020; and
 - b) for the Board to **decide** on the next steps for the project.

Background

- 2 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](#)).
- 3 At its September 2020 meeting, the Board received a verbal update from staff that the AASB and NZASB would jointly present on the need for a project by the IASB at the IFASS meeting in October (see [AASB Action Alert](#)). AASB and NZASB presented at the IFASS meeting on 1 October 2020.

Summary of staff recommendation

- 4 Staff recommend the Board continue its project to influence the IASB by way of a submission to the IASB’s upcoming agenda consultation, as well as the development of a though leadership paper.

Structure

- 5 This paper is structured as follows:
- a) summary of feedback received from IFASS participants (paragraphs 6-8);
 - b) other developments (Paragraph 9);
 - c) next steps (paragraphs 10-21); and
 - d) other project-planning matters (paragraphs 21-26).

Summary of feedback received from IFASS participants

Overall feedback

- 6 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 generally supported by IFASS members.

Significant comments

- 7 One of the participants expressed appreciation for the recommendations set forth by the AASB and NZASB and provided the following comments:
- a) with respect to going concern disclosures, there are perceptions that IAS 1 *Presentation of Financial Statements* already works well and thus there may be no problems to address. The requirements in IAS 1 paragraphs 25-26 to disclose material uncertainties, as well as IAS 1 paragraphs 122 and 125 which require management to disclose significant judgements, assumptions about the future and major sources of estimation uncertainty, were noted in support of the current requirements being adequate;
 - b) it is arguable whether there is a conflict between the accounting and auditing standards. Instead, it could be argued that the auditing standards may simply be more of an 'amplification' of the principles in IAS 1, rather than 'conflicting' with IAS 1. For example, it might appear that the first two disclosure items in IAS 570 *Going Concern* paragraph 19¹ are already required by the disclosure principles of current IFRS standards, and the last two items are the 'consequences' of such disclosures;
 - c) any form of local standard-setting should be approached with caution, so as not to undermine what is already required by IFRS standards. For example, adding additional, more specific requirements for entities to disclose significant judgements could imply the information would not otherwise be required under paragraph 122 and 125 of IAS 1;
 - d) it will be important to consider if developing additional disclosures would lead to a 'disclosure checklist' or contribute to 'disclosure overload'. In other words, it is important

¹ 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.

to keep in mind the IASB’s Disclosure Initiative project in proposing any changes, and not undermine the objectives of that project; and

- e) it is agreeable 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 is able to address would be a matter of priority, given the many other topics in the IASB’s project pipeline.

Other comments

8 The following table summarises the other feedback received at the IFASS meeting. Not all participants at the IFASS meeting shared a view.

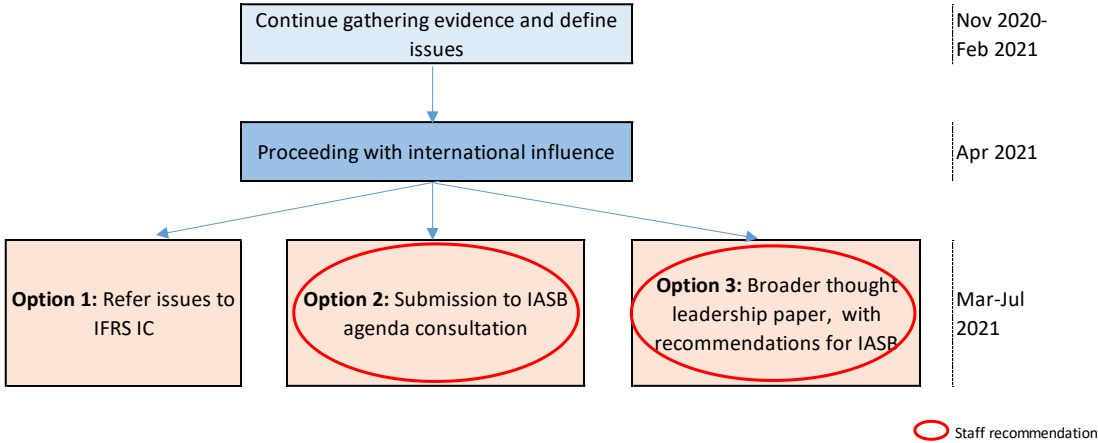
Jurisdiction #	Feedback received
1	<p>In the participant’s jurisdiction:</p> <ul style="list-style-type: none"> • No local standard-setting activity has been carried out • Going concern was noted as a potential issue needing guidance during the COVID-19 pandemic. Some existing guidance were gathered in response and posted on the website stressing that entities are required to disclose material uncertainties relating to going concern • Continuing to monitor this space closely and will have a better outlook on its position when financial statements are published after December 2020
2	<p>In the participant’s jurisdiction</p> <ul style="list-style-type: none"> • The auditing standard requirements relating to going concern were strengthened last year • An independent review was carried out into the effectiveness and audit of going concern which revealed that there should be greater disclosures around material uncertainties and mitigating action • Overall, agreed with the AASB and NZASB’s recommendations
3	<ul style="list-style-type: none"> • It is hard to draw a line as to the point at which the basis of accounting should be adjusted • Questioned what the fundamental differences between the liquidation basis and going concern basis of accounting would or should be
4	<ul style="list-style-type: none"> • Supported the AASB and NZASB’s recommendations • In the participant’s jurisdiction, extensive guidance has been issued on how to address going concern during COVID-19
5	<p>As the conference was held virtually, three participants also left the following comments using the ‘chat’ feature:</p> <ul style="list-style-type: none"> • The suggested project is long overdue. Only with such a project will preparers adequately engage on issues relating to going concern, which is currently largely left to auditors • Agreement with the recommendations, but noting that the IASB must act quickly, otherwise national standard-setters may address issues domestically. <p>A summary of the discussion was also posted on Deloitte’s IAS Plus website.</p>

Other Developments

- 9 A summary of other developments since the September 2020 Board meeting is provided below:
- a) 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*. This paper is expected to be completed by 31 December 2020. This research paper is expected to include the following:
 - a brief literature review, summarising the relatively small base of research relevant to the issue;
 - a summary of accounting and auditing standards that relate to going concern uncertainty across different jurisdictions and any research relevant to this area;
 - a preliminary analysis of management disclosure of going concern uncertainty and the influence of COVID-19 using a sample of Australian listed company disclosures for June 2020; and
 - a discussion of the nature of the inconsistencies and omissions regarding accounting standards for management disclosure regarding going concern uncertainty;
 - b) AUASB have organised a research roundtable on going concern in November 2020. The roundtable is focussed on auditing issues, but may highlight some accounting issues. AASB staff have been asked to make a presentation at this roundtable, similar to that made at the IFASS meeting;
 - c) the AASB and NZASB will present (the same presentation as presented at the IFASS) at the Asian-Oceanian Standard-Setters Group (AOSSG) in November 2020;
 - d) Staff discussed the issues around going concern at the AASB User Advisory Committee Meeting held in July 2020. Notably, UAC members were generally satisfied with current accounting disclosures in relations to going concern. However, staff question whether this would be because there is enough 'protection' from the auditing standards. Staff also note that creditors, a group of primary users who staff expect would have significant interest in an entity's going concern position, are not well-represented on the UAC; and
 - e) the [Interim Report](#) on the Regulation of Auditing in Australia was issued by the Parliamentary Joint Committee on Corporations and Financial Services in February 2020. Going concern disclosures were of particular interest to the inquiry, with interim recommendation 8 suggesting a review of reporting requirements in relation to management's assessment of going concern. The final report and recommendations are expected on 2 December 2020.

Next Steps

10 Staff note that this project was commenced following the analysis of the NZASB’s proposals to add additional going concern disclosures. In light of the feedback received to date and considering other cross-cutting projects, staff recommend the following next steps and options for the Board to progress. A pictorial presentation of staff’s recommended project plan (and options within) is as follows:



Objective and scope

11 Before deciding on next steps, staff would like to confirm the objective and scope of the project.

12 The **objectives** of the project are proposed as:

- a) to gather evidence to inform the Board of the current issues related to going concern assessment; and
- b) to evaluate and respond to the need for domestic and/or international standard-setting.

13 The **scope** of the project is proposed as addressing the adequacy of current going concern disclosures and the basis of preparation where the going concern assumption is no longer appropriate.

Question for Board members

Q1: Do Board members agree with the objectives and scope as set out in paragraphs 12 and 13?

Next stage

14 The Board considered whether to develop Australian additional disclosures (similar to or same as NZASB) in June 2020 but decided not to proceed with such a project (see [AASB Action Alert](#)). In making that decision, the Board noted that the issues did not appear to meet the criteria in the *AASB’s For-Profit Entity Standard-Setting Framework* to justify developing disclosures in addition to IFRS Standards. Instead, the Board decided to influence the IASB to undertake an international standard-setting project.

15 Accordingly, Staff have put forward the following options (see table on next page) for the Board to consider in deciding the best approach to influencing the IASB.

Table: Options identified by staff to progress project over medium/long-term			
Options	Timing/resources	Advantages	Disadvantages
<p>Option 1 – Submission to IFRS IC (not recommended by staff)</p> <p>Make a submission to IFRS Interpretation Committee (IFRS IC) requesting clarification of the expected disclosures under IAS 1 and assess whether narrow-scope standard-setting is required.</p> <p>Staff do not recommend that the Board proceed with this option as it appears unlikely the IFRS IC or IASB would address the issues.</p>	<p>March-April 2021.</p> <p>To discuss at April 2021 meeting.</p> <p>Low-Moderate resource needs.</p>	<ul style="list-style-type: none"> • IFRS IC could recommend narrow-scope standard-setting • Would be timelier than IASB agenda consultation process. 	<ul style="list-style-type: none"> • A similar issue was referred to IFRS IC in the past and proposals for standard-setting rejected by IASB board members in November 2013. • IFRS IC has already issued an agenda decision on the topic. • Therefore, it is unlikely that the IFRS IC would take this issue up again in near future. • Narrow-scope standard-setting may not be the best approach to address issues identified as it may focus only on targeted improvements to current requirements, rather than more fundamental research and consideration of the objectives of going concern disclosures.
<p>Option 2 –Influence via Agenda Consultation</p> <p>Influence <u>only</u> as part of the AASB submission to the IASB Agenda Consultation in March 2021.</p> <p>Key elements are:</p> <ul style="list-style-type: none"> • Short section of submission outlining issues/evidence identified. • Suggestion for IASB to undertake a project, but not setting out any proposed solutions to issues. 	<p>March-July 2021.</p> <p>Board to approve comment letter to Agenda Consultation Sep 2021</p> <p>Low resource needs.</p>	<ul style="list-style-type: none"> • The required level of staff resources and/or time will be low compared to option 3. • Agenda Consultation is arguably the key vehicle to add projects to the IASB agenda, so the approach may be sufficient. 	<p>There may be only a moderate degree of influence to the IASB due to the following reasons:</p> <ul style="list-style-type: none"> • The level of details in the submission would be less detailed (compared to option 3), and would not provide the IASB with recommendations on how the issues identified could be addressed; • This option may not have much influential visibility/attention. • There is risk that the significance of the issue may be lost when included with other suggestions in the agenda consultation submission.

Table: Options identified by staff to progress project over medium/long-term			
Options	Timing/resources	Advantages	Disadvantages
<p>Option 3 – Influence via a thought-leadership paper including recommendations for how the IASB could address issues</p> <p>(a) Publish a thought-leadership paper focusing on:</p> <ul style="list-style-type: none"> • presenting the issues and available evidence; and • Setting forth recommendations on how the IASB could address the issues. <p>(b) Present findings at future international conferences to gather further momentum.</p> <p>Similar to the AASB paper on Digital currency – A case for standard-setting activity (Dec 2016) and Research Report 9: Perspectives on IAS 36: A Case for Standard Setting Activity (March 2019).</p>	<p>March-July 2021.</p> <p>Board to consider a draft at June 2021 meeting and approve subsequently.</p> <p>Moderate-high resource needs.</p>	<ul style="list-style-type: none"> • Would result in a more comprehensive paper with thorough analysis and recommendations for the IASB to progress (compared to option 2). • Gives more prominence to the issues identified and solutions proposed by being published stand-alone. • Consistent with AASB Strategy 3 (thought leadership) and • Will be a basis for the AASB to influence at international meetings and also in meetings with local constituents. • There is potential for greater impact on the IASB if feedback received from the other national standard-setters is also included in the paper. • Still allows the AASB to influence via the agenda consultation as well. 	<ul style="list-style-type: none"> • More resourcing and/or time may be required to carry out further analysis and outreach required to draft the thought-leadership paper to the IASB and also related presentations at the international meetings to increase awareness. • There is a risk that the development of solutions may take a significant amount of time, and might not be finalised in time for the agenda consultation closing.

- 16 Staff recommend both **Option 2 and Option 3** as the most appropriate actions to take in an effort to influence the IASB to add a project to their work program.

Other component – response to Parliamentary inquiry

- 17 Staff note that the Board will also be required to respond to the Parliamentary enquiry using the findings and recommendations of the work carried out in this project. However, the timing of when this will need to occur is unknown. Staff will monitor the developments and notify the Board when the timing is known. Staff anticipate that the report will be able to be based on the evidence gathered during the other stages of the project, and hence resources to produce the report would not be overly significant. Staff also note that the response will be a broader project covering other issues identified by the inquiry (such as audit fee disclosures) in conjunction with the AUASB.

Questions for Board members

Q2: Do Board members agree with staff recommendation in paragraph 16 above to influence the IASB via agenda consultation and a thought-leadership paper?

Q3: If the answer to Q2 is no - how would the Board like to proceed with the project?

Immediate next steps

- 18 If the Board agrees to the staff recommendation set out in paragraph 16 above, staff consider that the next immediate next steps are to gather more evidence for the AASB to identify and define the fundamental issues (in line with the *AASB Evidence-Informed Standard-Setting Framework*). Accordingly, staff propose to undertake the following work before reporting back to the Board in April 2021:
- a) work closely with the academics (as noted in paragraph 9) to continue gathering evidence;
 - b) perform additional targeted outreach with broader stakeholder groups to inform debate (preparers, auditors, regulators, Disclosure Initiative panel etc); and
 - c) perform further staff analysis based on what the issues are.
- 19 Following April 2021, staff will continue to develop proposed solutions to the identified issues and present a draft thought leadership paper for the Board's consideration in the June 2021.
- 20 The IASB is currently discussing the content of a Request for Information for its 2020 Agenda Consultation which sets out IASB's work plan for the 2022-2026 period. The Request for Information is expected to be issued in March 2021 with a comment deadline in July 2021.

Section E: Other project-planning matters

- 21 This section sets out some other project-planning related matters that staff would like to confirm with the Board.

Priority/urgency

- 22 Staff recommend the priority assigned to this project is **Medium** on the basis that:
- a) the issues have been raised from various sources, including the PJC, the auditing profession and through the impact of COVID-19;
 - b) going concern issues are likely to persist over the medium term due to COVID-19; and
 - c) the IASB's agenda consultation will closely for comment in approximately September 2020, making the time to exert influence relatively short.

Project advisory panel/stakeholder engagement

- 23 Staff do not recommend the formation of a project advisory panel on the basis that other existing panels can be utilised, specifically the Disclosure Initiative Project Advisory Panel and User Advisory Committee.
- 24 The table under paragraph 27 sets out in more detail staff's intentions for stakeholder engagement. Notably, staff do not recommend roundtables to discuss the issues. This is because staff consider that identifying individual stakeholders of interest and interviewing them may be more beneficial in gathering useful insight as compared to roundtables, particularly given roundtables would likely have to be held virtually.

Assumptions and constraints

- 25 Assumptions of this project include:
- a) Staff will be able to gather objective evidence of the issues on a timely basis.
 - b) The academic team will be able to complete their work by December 2020.
 - c) There would be sufficient time (and staff/Board resources) to develop high-quality solutions/suggestions to the IASB.
- 26 Constraints of this project include:
- a) The timing of the reporting to the PJC is unknown and out of the AASB's control, particularly given the Government will need to respond after the final recommendations are issued.
 - b) Influence on the IASB may be limited if there are other, more urgent, projects for the IASB to address following its agenda consultation. In other words – an international project commencing is out of the AASB's control.

Question for Board members

Q4: Do Board members agree with the other project planning matters as outlined above?

Q5: Do Board members have any other feedback to share with staff?

Appendix: Detailed Stakeholder Engagement Plan

27 The following outlines staff's expectations relating to stakeholder engagement:

Stakeholder	Interest	Purpose	Channels	Target date/frequency
Disclosure initiative panel	Financial reporting SMEs Practical experience with going concern	Identifying and defining issues Consulting on solutions	Panel meetings Emails	Q1 2021 (identify issues) Q3 2021 (consult on solutions)
Preparers	Potential experience with going concern issues	Identifying and defining issues Consulting on solutions	Targeted meetings/interviews	Q1 2021 (identify issues) Q3 2021 (consult on solutions)
Audit firms	Practical experience dealing with clients with going concern issues	Identifying and defining issues Consulting on solutions	Targeted meetings/interviews	Q1 2021 (identify issues) Q3 2021 (consult on solutions)
Professional bodies	Advocates for members that may have practical experience with going concern issues	Identifying and defining issues Consulting on solutions	Targeted meetings/interviews	Q1 2021 (identify issues) Q3 2021 (consult on solutions)
Regulators	Responsible for ensuring market stability and enforcing current requirements	Identifying and defining issues Consulting on solutions	Targeted meetings/interviews	Q1 2021 (identify issues) Q3 2021 (consult on solutions)
User Advisory Committee	Primary users and focus of AASB's work Able to confirm existence of issues and suitability of proposed solutions	Identifying and defining issues Consulting on options for	UAC meetings	Q3 2021 (consult on possible solutions)
AUASB	Develops auditing requirements are relevant to this project	Discuss auditability of any proposed solutions	Staff liaison	Ongoing - monthly
NZASB	Has same objectives and broad proposed approach to influence IASB as AASB	Share ideas and developments Ensure messaging is aligned to the extent practical	Staff liaison	Ongoing - monthly
Other National Standard-Setters	May have same objectives as AASB; can assist in influencing IASB	Share ideas and developments Gather support	Staff liaison Presentations at conferences	Q1 2021 – informally (IFASS meeting) Q3 2021 – formally (ASAF or IFASS meeting)
IASB	Key stakeholder that we are trying to influence	Share evidence Gather early feedback/insight on proposed solutions	Staff liaison Presentation at conferences Submissions	Q1 2021 – informally Q3 2021 – formally (ASAF or IFASS meeting)