Australian Government

Australian Accounting Standards Board

GOING CONCERN DISCLOSURES: A CASE FOR INTERNATIONAL STANDARD-SETTING

AASB STAFF PAPER

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Obtaining a copy of this publication

This publication is available on the AASB website.

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Contents

1. Executive summary

The going concern assumption is a fundamental principle underlying the preparation of financial statements. Therefore, clear and robust going concern reporting requirements are critical to ensure stakeholders have sufficient information to make informed economic decisions. The Australian Accounting Standards Board (AASB) has obtained evidence that suggests the current going concern reporting requirements in IAS 1 *Presentation of Financial Statements* are insufficient in their current form, and that this should be addressed by the IASB as a priority. Additionally, the evidence obtained indicates that insufficient guidance exists for the basis of preparation where the going concern assumption is no longer appropriate. This paper provides recommendations as to how the IASB could address these issues.

Other national standard-setters (e.g. in the UK, Canada, and New Zealand[1]) and the IASB have issued guidance and/or amendments to the existing IFRS requirements to help entities with the assessment of their ability to continue as a going concern.

In Australia, going concern assessments and disclosures have been placed in the spotlight by a 2019 inquiry by the Parliamentary Joint Committee on Corporations and Financial Services (PJC)[2] into the regulation of auditing. One of the recommendations contained in the PJC's final report is to review the existing reporting requirements in relation to management's assessment of going concern.

To identify the underlying issues surrounding the going concern reporting requirements in practice, this paper analyses feedback received from a range of Australian and international stakeholders over the period of July 2020 – March 2021, including financial statement preparers, auditors, regulators and users. Furthermore, an assessment is provided of past IASB deliberations on the key issues identified, including whether previous decisions may need to be revisited in light of recent developments.

In relation to the adequacy of current going concern disclosures, feedback received suggests that there are issues surrounding inconsistency and inappropriate interpretation of the current requirements which could be addressed through additional guidance within IAS 1. Additionally, concerns were raised around the diversity in practice regarding the information disclosed in circumstances when the financial statements are prepared on a going concern basis, but management is aware of events or conditions that may cast significant doubt on this judgement. Finally, stakeholders raised concerns around the misalignment between the disclosure requirements in IAS 1 and those in ISA 570 *(Revised) Going Concern* and a lack of understanding about the requirement to consider information about the future which is at least 12 months from the reporting date.

Feedback further suggests that the development of guidance would be useful to ensure consistency and comparability of financial statements when the entity is no longer a going concern. Concerns were also raised around the diversity in practice and mixed views on the basis of preparation to be applied when an entity is no longer operating under the going concern assumption. Finally, feedback was supportive of

1 Both the Financial Reporting Council (UK FRC) and Canadian Accounting Standards Board (AcSB) have issued guidance to stakeholders on assessing and reporting on an entity's ability to continue as a going concern in light of the economic uncertainty arising from the COVID-19 pandemic. The New Zealand Accounting Standards Board (NZASB) amended Financial Reporting Standard (FRS) 44 *New Zealand Additional Disclosures* to better align the accounting standards requirements with those in the auditing standards in August 2020.

2 In 2019, the Australian Senate referred an inquiry into the regulation of auditing to the Parliamentary Joint Committee on Corporations and Financial Services (PJC). In November 2020, the PJC issued its final report based on the results of the inquiry, which included a series of recommendations to enhance the quality of auditing in Australia.

further research to determine the underlying issues and the extent of diversity across entities and jurisdictions prior to deciding on any potential standard-setting solution.

Overall, based on the findings presented, it is recommended that the IASB revisit IAS 1 to develop specific examples and guidance for preparers on how to assess and disclose going concern matters. It is further recommended that the IASB initiate a research project to better understand the extent of underlying considerations regarding the preparation of financial statements on a non-going concern basis.

2. Overview and objective

The going concern assumption is a fundamental principle which underlies management's preparation of the financial statements. Robustness and clarity of the accounting standard requirements in relation to going concern are essential to ensure stakeholders have sufficient information to make informed economic decisions. The feedback received by the AASB to date indicates that the IASB needs to revisit the existing going concern reporting requirements contained in IAS 1 *Presentation of Financial Statements* as they may not be sufficient in their current form. Therefore, the objective of this AASB Staff Paper is to identify whether there is a need for standard-setting by the IASB in relation to going concern disclosures.

In recent years, a number of national standard-setters (NSS)[3] have raised concerns about the adequacy of the current going concern requirements and the potential need to revise IFRS Standards to address these concerns.

In August 2020, the New Zealand Accounting Standards Board (NZASB) amended Financial Reporting Standard (FRS) 44 *New Zealand Additional Disclosures* to better align the accounting standards requirements with those in the auditing standards.[4] The amended standard requires entities to disclose material uncertainties related to the going concern assessment, information about events giving rise to those uncertainties, management's plan to mitigate the effect of those events and information about significant judgements made as part of the going concern assessment (FRS 44 paras. 12.A.1–2).

Since the beginning of 2020, and in response to increased economic uncertainty, various NSS have issued publications and guidance on assessing and reporting on an entity's ability to continue as a going concern. This includes, but is not limited to:

a) *Coronavirus Crisis: Implications on Reporting and Auditing* (issued by Accountancy Europe in March 2020);

b) *COVID-19 – Going concern, risk and viability* (issued by the FRC in June 2020); and

c) *COVID-19 and Going Concern: What the accounting standards require* (updated version issued by the AcSB in January 2021).

This recently issued guidance primarily serves to identify the key issues and considerations for preparers of financial statements when assessing an entity's ability to continue as a going concern, as well as specific examples, extracts and summaries of the requirements contained in the accounting standards (discussed in detail in sections 3.1 and 4.1 of this paper). Though this guidance does not specifically identify issues with the existing requirements in relation to going concern, the fact that NSS are providing such guidance to their stakeholders is indicative of a lack of detail and clarity in IAS 1.

Additionally, the IASB issued the educational material *Going concern – a focus on disclosure* in January 2021 (discussed in detail in section 3.3 of this paper). This guidance serves to highlight the existing requirements in IFRS Standards around the assessment of whether the going concern basis of accounting remains appropriate and the disclosures that might be required about that assessment.

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3 Both the AASB and NZASB have identified concerns around the existing going concern requirements in the IFRS Standards. Additionally, during the November 2020 Annual AOSSG meeting, the Indonesian Financial Accounting Standards Board – Institute of Indonesia Chartered Accountants (DSAK-IAI) and Saudi Organization for Certified Public Accountants (SOCPA) presented on issues in relation to the current accounting standard requirements on going concern, and the potential need for revisions to the existing requirements.

4 These amendments introduced specific disclosure requirements for when an entity concludes it is a going concern, but this conclusion has involved the application of significant judgement; and/or the consideration of material uncertainties and aligned disclosures with ISA 570 (revised) *Going Concern*, para. 19.

2.1 Going concern disclosures in Australia

In 2019, the Australian Senate referred an inquiry into the regulation of auditing in Australia to the Parliamentary Joint Committee on Corporations and Financial Services (PJC). As a result of the inquiry, the PJC issued its final report on the *Regulation of Auditing in Australia* in November 2020, with one of the recommendations calling for a review of reporting requirements in relation to management's assessment of going concern.

The AASB considered whether a similar domestic standard-setting process to that undertaken in New Zealand would benefit users of financial statements but ultimately decided not to add a corresponding project to the AASB's Work Program on the basis that the issue was not Australian-specific and, therefore, standard-setting activity was not justified in accordance with the *AASB's For-Profit Entity Standard-Setting Framework*.[5] Specifically, while concluding that improved disclosures would be of benefit to the users of financial statements, any resulting amendments to standards should be undertaken at the international level.

The AASB also concluded that, while there could be a significant increase in the number of entities with going concern issues due to COVID-19, the pandemic does not represent a valid reason to initiate standard-setting. Instead, the AASB addressed issues related to going concern disclosures through an AASB/AUASB joint publication, *The Impact of COVID-19 on Going Concern and Related Assessments*.

The AASB continued to monitor stakeholder feedback relating to going concern disclosures and noted that concerns around the inconsistency of current standard interpretations exist in practice (see feedback received from stakeholders in section 3.2). It is further noted that this topic had been discussed by various accounting standard-setters and by the International Auditing and Assurance Standards Board (IAASB).[6]

In addition, as a result of the COVID-19 pandemic, a number of local businesses were forced to cease operations. This has brought to light a lack of accounting guidance for financial statements which are no longer prepared on a going concern basis (see feedback received from stakeholders in section 4.2).

The AASB noted that concerns around the adequacy of going concern disclosures and a lack of guidance for entities not operating under the going concern assumption are global issues, and therefore, need to be addressed at an international level. Consequently, the AASB decided to undertake a longer-term project focussed on supporting an IASB review of the existing going concern disclosure requirements. Such a project would reassess the clarity of disclosure requirements in the international accounting standards relating to the going concern assessment and, importantly, the potential gap in the existing guidance on the basis of preparation where the going concern assumption is no longer adequate.

As a result, the AASB decided to undertake local and international outreach to understand the fundamental issues around the current going concern disclosures required by IAS 1.[7] The results of this

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5 The AASB considered paras 20–46 of the *AASB For-Profit Entity Standard-Setting Framework* (SSF) at its June 2020 meeting and decided not to add a corresponding project to the AASB's Work Program for the following reasons:

- There is limited evidence of justifiable circumstances for amendment – The AASB is not aware of any public interest issues that may justify amendments to AAS (SSF para. 37(d)).
- The issue is also not specific to Australia/New Zealand but rather an international issue. This is inconsistent with the SSF and AASB Due Process Framework for Setting Standards which generally require amendments for publicly accountable entities to be driven by Australian-specific legislation, user needs or practice issues.
- There is limited evidence on whether the issues are sufficiently significant to warrant amendment (SSF paras. 40 45).

6 The IAASB issued a discussion paper *Fraud and Going Concern in an Audit of Financial Statements* (September 2020) exploring the differences between public perceptions about the role of the auditor and the auditor's responsibilities in a financial statement audit, seeking perspectives from all of its stakeholders across the financial reporting ecosystem on whether the International Standards on Auditing (ISAs) related to fraud and going concern need to be updated to reflect the rapidly evolving external reporting landscape, and, if so, in what areas.

7 Both IAS 1 and AASB 101 *Presentation of Financial Statements* have the same requirement in relation to going concern. For the purpose of this paper, when the term 'Accounting Standards" is used, it refers to both international Financial Reporting Standards (IAS/IFRS) and Australian Accounting Standards (AAS).

outreach are to be used as the basis for proposals to be presented to the IASB as recommendations for evidence-based amendments to IFRS Standards.

The objectives of this outreach-driven paper are to:

a) identify the issues and available evidence regarding the adequacy of going concern disclosures currently required by the accounting standards;

b) identify the issues relating to the lack of guidance on the basis of preparation where the going concern assumption is no longer appropriate; and

c) recommend to the IASB how best to address the issues identified.

2.2 Scope

This paper considers two main issues:

a) The adequacy of the current going concern disclosure requirements; and

b) The lack of guidance on the basis of preparation when an entity is no longer a going concern.

Issues relating to the going concern assessment process as to whether an entity is or is not a going concern are not addressed, nor are any explicit recognition and measurement issues in cases when the going concern basis is no longer appropriate.

The financial reporting requirements in relation to going concern are the primary focus. However, the AASB acknowledges that these requirements are fundamentally interrelated with the auditing requirements in relation to the going concern assessment. As such, the AASB has engaged with the Auditing and Assurance Standards Board (AUASB) throughout this project and encourages the IASB and IAASB to work closely to address the issues in this area.

2.3 AASB outreach program[8]

Between February and March 2021, AASB staff conducted interviews with local stakeholders who had expressed an interest in participating and sharing their views. A few stakeholders who were unable to attend the telephone interviews provided their responses in writing. The interviews were based on four questions targeting two main areas (see Appendix A for the questions provided to the local participants), being the adequacy of current going concern disclosures and the lack of guidance for the basis of preparation when an entity is no longer a going concern. The stakeholders engaged in the outreach (subsequently referred to as 'participants') are known to apply, analyse, audit, regulate or otherwise use the IFRS requirements.

AASB staff also discussed the issues around current going concern disclosures and the lack of guidance for the basis of preparation when an entity is no longer a going concern with the members of the AASB's User Advisory Committee (UAC).[9]

AASB and NZASB staff jointly presented at several international meetings throughout 2020 and 2021 where valuable feedback was obtained from other national standard-setters (see Appendix B for the questions provided to the participants of the international meetings).

8 Further details on the AASB outreach program along with feedback received from both international and local participants are included in Appendix C of this paper.

9 The UAC is an expert panel formed by the AASB, and is comprised of 17 members - analysts, investors, ratings agencies, fund managers, and investor relations professionals from the For-Profit sector. The purpose of the UAC is to provide the AASB with input, recommendations, and feedback pertaining to the creation or emendation of Australian Accounting Standards, as well as outreach to the wider stakeholder community.

In November 2020, staff of the AUASB held a virtual roundtable event to debate, and ultimately inform their submission on, the IAASB's Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements*. Feedback received by AUASB stakeholders highlighted concerns around the robustness and understandability of the existing going concern disclosure requirements and guidance in the accounting standards. Furthermore, AUASB stakeholders raised concerns around the misalignment between auditing and accounting standards' disclosure requirements (refer to section 3 for an overview of this misalignment).

The AUASB heard that collaboration between the IASB, IAASB and other parties in the financial reporting ecosystem is necessary to reduce the expectation gap[10] in relation to going concern disclosures. Specifically, AUASB stakeholders were supportive of the IASB engaging with the IAASB to develop more granular requirements and guidance in relation to going concern for management and those charged with governance (TCWG) to address concerns around the inconsistency and variability of going concern disclosures resulting from assessments made by these parties (see Appendix C for more detailed feedback from the AUASB reflecting the debate at the roundtables). The AASB supports further dialogue between the IASB and the IAASB on the topic of going concern disclosures.

10 The 'expectation gap' refers to the difference between what users of financial statements believe the auditor's responsibilities should be and what the auditors believe their responsibilities should be. The AUASB acknowledges that such an expectation gap exists in relation to going concern disclosures.

3. Adequacy of current going concern disclosures

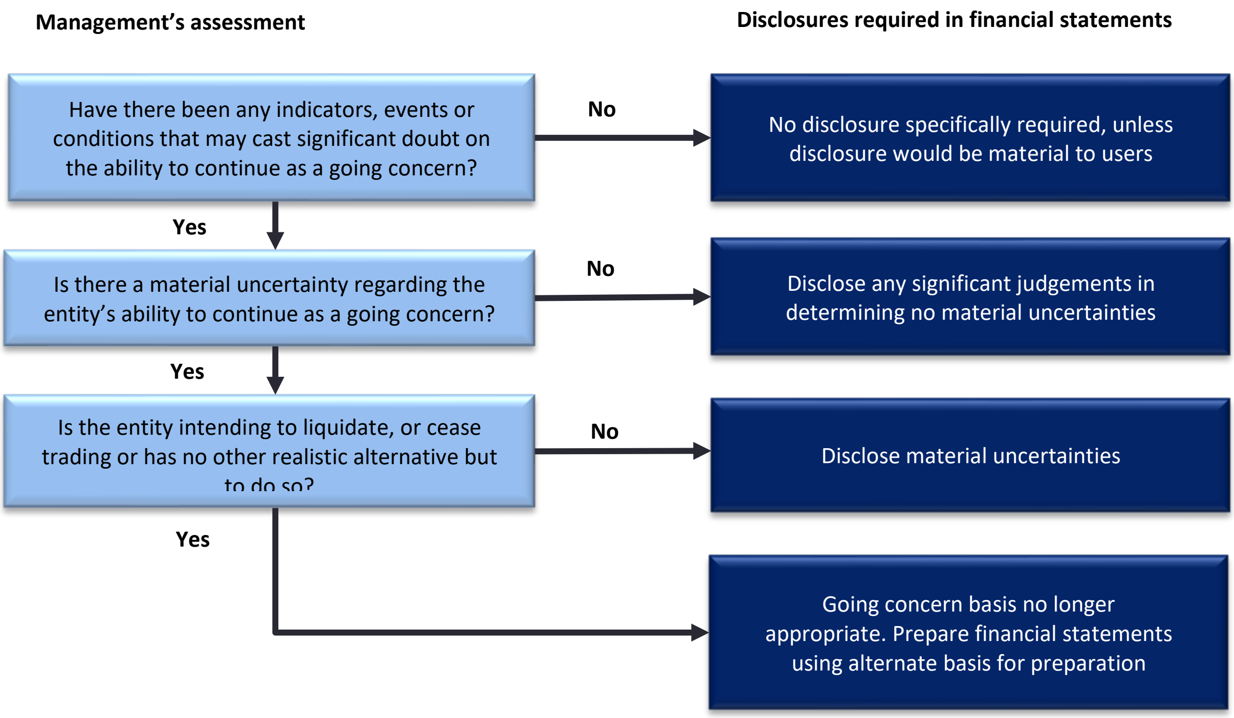
3.1 Background

The going concern assumption is a fundamental principle that underlies the preparation of the financial statements. When preparing financial statements, IAS 1 requires management to assess the entity's ability to continue as a going concern. An entity prepares its financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or it has no realistic alternative but to do so.

When management is aware of any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, paragraph 25 of IAS 1 requires management of the entity to disclose those uncertainties. In assessing whether the going concern assumption is appropriate, management should consider all available information about the future. Specifically, management should consider information for at least, but not limited to, the next 12 months from the end of the reporting period (IAS 1 para. 26).

An entity should consider not only the specific disclosure requirements relating to going concern in paragraph 25 of IAS 1 but also the overarching disclosure requirements in IAS 1. These requirements include those in paragraph 122 of IAS 1 relating to judgements that management has made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of IAS 1 requires disclosure of information around the assumptions about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This disclosure requirement may also be relevant if those assumptions and uncertainties are part of the going concern assessment.

The diagram below provides a high-level overview of the current disclosure requirements in paragraphs 25, 26, 122 and 125 of IAS 1, which relate to going concern assessments.



ISA 570 specifies the auditor's responsibilities in the audit of an entity's financial statements relating to going concern and the associated implications for the auditor's report. Auditing standards include requirements relating to the auditor’s responsibility to obtain sufficient and appropriate audit evidence regarding the appropriateness of management’s assessment of the going concern basis of accounting, whether a material uncertainty exists and the adequacy of associated disclosures. There is a concern that a mismatch between accounting and auditing requirements may exist, and that the auditing standards require the auditor to assess the disclosure of information relating to the going concern assessment that is not specifically required by the accounting standards.

A key example of this inconsistency between the accounting and auditing standards relates to the prescriptiveness of disclosure requirements around material uncertainty. In ISA 570,[11] if the auditor concludes that the going concern basis of accounting is appropriate, but a material uncertainty exists, the auditor is required to ensure the financial statements explicitly disclose that there is a material uncertainty related to going concern. If such explicit disclosure is not made, the auditor qualifies their opinion. Conversely, paragraph 25 of IAS 1 does not explicitly specify the requirement for this specific wording to be disclosed, but rather states that any material uncertainties which management is aware of should be disclosed (however, the entity is not explicitly required to use ‘material uncertainty’ in the disclosure). This inconsistency in prescriptiveness between the accounting and auditing standards contributes to a lack of clarity around the going concern requirements, and greater instances of non-compliance with these requirements. The following diagram provides an overview of the variations in going concern requirements between the accounting and auditing standards.

Accounting Standards		**Auditing Standards**
Material uncertainties: Disclose those uncertainties	VS	**Material uncertainties:** Auditor must determine whether the financial statements adequately: • explain the events and/or conditions that cast doubt; • explain management’s plans to deal with them; • disclose clearly that there is a material uncertainty; and • disclose that the entity may be unable to realise assets/discharge liabilities.
Significant judgements: Disclose significant judgements made in concluding there are no material uncertainties		**Significant judgements:** Where there are events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor must determine whether the disclosures are in accordance with the relevant financial reporting framework and provide adequate disclosure about these events or conditions

11 Paragraph 19b of ISA 570 states that the auditor is required to ensure that the financial statements “disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business”.

3.2 What have we heard?

Based on the outreach undertaken (as described in section 2.3), the AASB has received feedback in relation to the adequacy of the current going concern disclosure requirements within the IFRS Standards.

The majority[12] of participants in the AASB's outreach program indicated that there are issues in relation to inconsistent and inappropriate interpretation of the existing going concern disclosure requirements in IAS 1 as a result of their lack of prescriptiveness and clarity. Several participants were of the view that the primary issue is related to compliance with the existing going concern requirements, rather than fundamental deficiencies within the standard.

Participants additionally noted that, while the recent educational material released by the IFRS Foundation was helpful, some of the discussion and requirements from this educational material should form part of the accounting standards. These participants largely agreed that the lack of clarity in existing going concern disclosures could be addressed by additional guidance on interpreting the current requirements within IAS 1. They also agreed that this issue should be addressed by the IASB rather than local standard-setters.

According to participants, the lack of guidance on how to correctly interpret the current requirements has led to diversity in practice around the information provided in circumstances when the financial statements are prepared on a going concern basis while management are aware of events or conditions that may cast significant doubt on this judgement.

The majority of financial statement preparers who participated in the outreach indicated that, when making disclosures about going concern, they would consider the disclosure requirements in paragraphs 25 and 26 of IAS 1 in isolation and would not consider the general requirements in IAS 1 (IAS 1 paras. 122 and 125).

The users of financial statements who participated in the outreach program were largely supportive of further clarity on going concern disclosures as a means of improving their ability to make informed economic decisions on investments. In particular, users indicated that they value information about why an entity is or 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 and the entity's working capital requirements that are needed to continue operations.

Several participants were of the view that there is a perceived misalignment between the requirements in accounting and auditing standards. This concern stems from the fact that the auditing standards[13] expect the disclosure of information on going concern that is not specifically required by the accounting standards. Hence, there is a view that the auditing standards require more detailed disclosures than accounting standards which causes confusion and misalignment between the requirements.

AUASB roundtable participants were similarly of the view that the international accounting and auditing standards should be better aligned. These participants noted that management/TCWG need more detailed requirements and guidance on how to make going concern assessments, including how to identify whether

12 Throughout this paper, collective terms with broad and approximate meanings are used. Refer to Appendix C in this paper for an overview of the meaning of these terms.

13 ISA 570 paragraph 19 states that, 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.

there is a material uncertainty, how to determine if an entity is not a going concern and a framework for reporting when the going concern basis is not appropriate.

Finally, participants raised concerns that there is too much focus on the 12-month period from the reporting date and some reluctance from preparers to consider a longer period when assessing going concern.

The AASB received various views from participants during outreach which are not included above as they did not reflect the views of the majority. See Appendix C for the details of the AASB outreach program and further details of feedback received from the participants.

3.3 Analysis of previous IASB discussions and guidance

Similar issues to those mentioned above have been raised with the IASB in the past and discussed by both the IASB and the IFRS Interpretations Committee (IFRS IC).

The AASB contemplated the IFRS IC and IASB's previous discussions and available guidance. These are discussed below.

IFRS IC – Request for clarification of IAS 1 (June 2012)

In June 2012, the IFRS IC received a request to clarify the requirements in IAS 1, which require the disclosure of uncertainties when management is aware of material uncertainties about an entity's ability to continue as a going concern. The scope of the IFRS IC's discussions was limited to two specific elements;

a) when an entity should be required to disclose information about material uncertainties; and

b) what to disclose about those uncertainties.

At its November 2012 meeting, the IFRS IC tentatively decided that these two questions should be addressed through a narrow-scope amendment to IAS 1. In January 2013, the IFRS IC recommended presenting revised proposals to the IASB for consideration.

In March 2013, the IASB tentatively decided to further develop the IFRS IC's proposals and, in November 2013, it discussed the basis 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 at greater risk of no longer being a going concern (i.e. 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 convinced that further guidance was required. Consequently, the IASB decided not to develop these proposals further and removed this topic from its agenda and the IFRS IC did the same.

A tentative agenda decision was subsequently published by the IFRS IC in March 2014, which highlighted the fact that the judgements required in arriving at a going concern conclusion in circumstances where there had been a 'close call' were an example of the application of paragraph 122 of IAS 1.

In March 2014, the IFRS IC 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 IFRS IC 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 IFRS IC further observed that, in the circumstances discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to judgements made in concluding that there remains 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).

IASB guidance *Going Concern – a focus on disclosure* (Jan 2021)

In January 2021, the IFRS Foundation issued the educational material *Going concern – a focus on disclosure*, which was intended to support the consistent application of requirements in IFRS Standards.[14] The educational material highlights the existing requirements in IFRS Standards on the assessment of whether the going concern basis of accounting remains appropriate and the disclosures that might be required about that assessment.

The educational material emphasises that the entity shall consider the overarching disclosure requirements, specifically those relating to judgements that have the most significant effect on the amounts recognised in the financial statements (IAS 1 para. 122). It further explains that the entity should disclose:

a) significant judgements when significant doubts about going concern exist but mitigating actions are judged sufficient; and

b) significant judgements and material uncertainties when significant doubts about going concern exist, mitigating actions are judged sufficient, but material uncertainties remain.

In addition, the guidance considers three different scenarios involving the assessment of going concern and how IAS 1 disclosure requirements apply.

The guidance further explains that an entity should disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Assessment of IASB's deliberations and guidance issued

While amendments to IAS 1 were already considered and rejected in 2013, the fact that stakeholders are repeatedly raising concerns in relation to the inconsistent application of the going concern requirements in IAS 1 indicates the prevalence of this issue. It also demonstrates that the problem is currently relevant and calls for resolution. As such, this matter should be addressed, particularly as maintaining IFRS Standards and supporting their consistent application is one of the main activities undertaken by the IASB.

Although the AASB is cognisant of the IASB's past concern about sensitivity of the information relating to the going concern assessment, this disclosure may be required to meet the objective of the financial statements as defined by IAS 1. That is, to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions (IAS 1 para. 9). In addition, disclosing information about mitigating actions can strengthen investors' confidence in both management and the entity's future operations.

The AASB also considered the IASB's concern around whether any standard-setting activity in this area would result in boilerplate disclosures or contradict the IASB's current disclosure initiative, including its

14 The educational material notes that:
- 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.
- 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.
- Going concern assessments will often be subject to significant assumptions and judgements which would need to be disclosed under the general requirements of IAS 1 in addition to the specific going concern disclosures required in paragraph 25 of IAS 1.

aim to reduce rather than increase the disclosure requirements. However, it concluded that providing additional guidance on interpreting the current disclosure requirements neither promotes a disclosure checklist mentality nor contributes to the disclosure overload. Furthermore, the fundamental nature of going concern disclosures in the financial statements means that such disclosures should not be limited to achieve a reduction in the length of the financial statements. Prevention of the disclosure of irrelevant information can be achieved by referencing the general materiality principle in paragraph 31 of IAS 1, which states that an entity need not provide a specific disclosure required by a standard if the information resulting from that disclosure is not material.

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 the AASB has not heard that this has created any of the issues that the IASB members were concerned about at that time.

The AASB acknowledges that the IASB's guidance, which was issued in January 2021, clarifies how to interpret the current disclosure requirements in IAS 1. Nevertheless, it provides only high-level guidance and may not address some of the issues raised by the outreach participants, namely existing diversity in practice in relation to the information disclosed and inappropriate interpretation of the standard. While this educational material is useful, it may not be frequently utilised by all preparers - particularly smaller preparers who may not be aware of, or familiar with, such IASB publications. Accessibility may continue to be a concern in the future when the going concern assessment may no longer be a global hot topic and this guidance may not be frequently referred to in subsequent commentary.

To assist stakeholders, this guidance could be enhanced with the addition of more specific examples that are relevant to preparers. The guidance should also be included in the standard in the form of application guidance, implementation guidance or illustrative examples. Since the accounting standards are the primary reference point for preparers, this would provide more prominence and authority to the guidance. The IASB could use the existing guidance on going concern as the basis for this inclusion.

As the IASB is currently in the process of replacing IAS 1 as part of the Primary Financial Statements (PFS) project, the timing to revisit the current going concern disclosures in IAS 1 is appropriate.

On balance, after considering the views of various stakeholders and the work done by the IASB to date, the AASB concluded that additional guidance in the form of application guidance, implementation guidance or illustrative examples in IAS 1 is required when:

a) events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, but no material uncertainties have been identified; and
b) material uncertainties have been identified in relation to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern.

The AASB notes that, although the economic impacts of the COVID-19 pandemic have highlighted the issues related to the current going concern disclosure requirements, these issues existed before the pandemic and will continue to impact the consistency of financial statements in the future.

Stakeholders also provided feedback about an inappropriate focus by preparers on 12 months from the reporting date when assessing going concern. However, the educational material released by the IASB confirms that management's assessment of going concern is required to cover at least 12 months from the reporting date but that this is a minimum period, not a cap. The AASB noted that paragraph 26 of IAS 1 refers to the future, which is at least but not limited to twelve months from the end of the reporting period. As such, the AASB concluded that the existing disclosure requirement is sufficient, and no further clarification is needed.

3.4 Recommendation to the IASB

After considering the views of a range of Australian and international stakeholders and the work done to date, the AASB recommends that the IASB revisit IAS 1 to include specific examples and more explicit step-by-step guidance for preparers on how to assess going concern in the Application Guidance of IAS 1. In particular:

a) provide 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;

b) provide additional guidance to preparers on how to assess whether there are significant doubts about the entity's ability to continue as a going concern, what mitigating actions may be considered and whether material uncertainties remain after that assessment through illustrative examples of events and conditions (see section 3.5); and

c) better align the requirements in the accounting standards with the requirements in the auditing standards.

The AASB also acknowledges 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 PFS project, it is appropriate to consider the inclusion of Application Guidance on going concern disclosures in the new principal version of IAS 1.

Should the IASB decide not to add a section of Application Guidance (AG) under the PFS project, specific examples and more explicit guidance to preparers on how to assess going concern could be included in either Implementation Guidance (IG) or Illustrative Examples (IE). However, the AASB acknowledges that IE would also be a new section, unless they are developed during the PFS project for other areas of IAS 1.

3.5 Illustrative Examples

The AASB has included three hypothetical examples in this paper to assist the IASB in providing additional guidance to preparers about what disclosures to make in relation to the going concern assessment of the entity, including any events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, mitigating actions and whether the material uncertainty remains after that assessment.

The AASB considered the following areas when developing these illustrative examples:

a) information about the principal events or conditions giving rise to those material uncertainties (similar to what is provided in ISA 570 paragraphs A3–A6);

b) information about management's plans to mitigate the effects of those events or conditions; and

c) that, as a result of those material uncertainties, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

These examples portray hypothetical situations illustrating the possible disclosures and judgements that might apply when management makes an assessment of an entity's ability to continue as a going concern. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying the requirements in IAS 1.

Illustrative Example 1 – when an entity is a going concern with no indicators, events or conditions that may cast significant doubt on its ability to continue as a going concern.

Background:

ABC Limited (the Company) is a for profit company incorporated and domiciled in Australia. The Company is principally engaged in the business of providing accounting and financial advisory services. Management is of the view that there are no indicators, events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Management's assessment for the year ending 30 June 20X1

As per paragraph 25 of IAS 1, when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.

As per paragraph 26 of IAS 1, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

In determining whether there are indicators, events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management has considered the following factors[15]:

- **Net profit (loss):** The Company has recognised a net profit after tax of $xx for the year ended 30 June 20X1, which has increased by x% compared to the previous reporting period. Management considers this will enable the Company to continue its operations for the foreseeable future and repay debts as they fall due.
- **Working capital ratio:** As at the reporting date, the Company's current assets exceeded current liabilities by $yy. Therefore, management is confident that the Company will have sufficient resources to repay its short-term debts.
- **Forecast cash flows:** The Company has signed 15 major contracts with its customers, which will ensure consistent cash flows for at least the next 12 months. The Company has also secured an approved unused loan facility of $zz from Royal City Bank which will provide sufficient funding for the continuation and expansion of operations for the foreseeable future as intended.
- **Demand for services provided:** The demand for services provided by the Company has been significantly increasing over the past 12 months and is expected to continue. Management expects that this will contribute to an increase in net profit and cash flows for the foreseeable future, thereby providing the resources to enable to Company to repay its debts as they fall due over the long term.
- **Regulatory or operational framework:** No major changes to the Company's operational framework, including to major suppliers, customer segments or the Company's workforce, are expected for the foreseeable future. Additionally, the Company is not expecting any changes to statutory or regulatory requirements that could result in non-compliance of operations or reporting. Therefore, management is confident that there will be no significant disruptions to ongoing operations that may impact the Company's ability to repay its debts as and when they fall due.

As a result of the matters identified above, and consistent with paragraph 25 of IAS 1, management continues to have a reasonable expectation that the Company has adequate resources to continue in operations for the foreseeable future, and that the going concern basis of preparation is appropriate. As

15 The considerations for management when making a going concern assessment included in the illustrative examples of this paper are intended to be neither exhaustive nor company specific.

management was not required to exercise significant judgement in making this assessment, there are no specific disclosure requirements as per paragraph 122 of IAS 1.

Management's disclosure

The Directors consider that the Company has sufficient resources to meet all of its obligations as and when they fall due. Therefore, the financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business.

Illustrative Example 2 – indicators casting doubt on an entity's ability to continue as a going concern exist, however the entity concludes it is a going concern and there is no material uncertainty regarding this ability.[16]

> *Background:*
>
> *DEF Limited (the Company) is a for profit company incorporated and domiciled in Australia. The Company is principally engaged in the business of selling real estate properties. The industry is facing a downturn due to an increase in interest rates on home loans and high rates of unemployment and inflation prevailing in the economy. As a result, the number of new properties listed in the current year has declined, which led to a noticeable decrease in the Company's sales revenue and operating cash flows compared to the prior year and management has breached financial covenants under their loan agreement during the year. However, management believes that there is no material uncertainty regarding the entity's ability to continue as a going concern.*

Management's assessment for the year ending 30 June 20X1

As per paragraph 25 of IAS 1, when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.

As per paragraph 26 of IAS 1, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

In determining whether there are indicators, events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management has considered the following factors[17]:

- **Sales revenue:** The Company's sales revenue has decreased by xx% compared to the previous reporting period as a result of the industry downturn. However, as of May 20X1, the Company has started offering consulting services on property renovation as a new revenue stream which is expected to grow further in the coming years. This new revenue stream is expected to partially offset the decrease in revenue from the main business activities.
- **Liquidity and cash position:** The Company's operating cash flows have decreased by yy% compared to the previous reporting period as a result of the industry downturn. However, in May 20X1, the Company obtained a new $xx million credit facility with a term of five years and has taken various measures to reduce certain expenditures to optimise its liquidity position. Management expects that these measures, together with the new revenue stream (described above), will provide the Company with sufficient resources to continue its operations and repay its debts for the foreseeable future.
- **Compliance with financial covenants:** The Company received a waiver to comply with the relevant financial covenants for the year ended 30 June 20X1. The Company expects compliance at the next covenant testing date of 30 June 20X2. Therefore, management considers that there is low risk of the Company defaulting on its financial covenants.
- **Impairment testing:** The Company tested its non-financial assets for impairment, updating the assumptions and cash flow forecasts where appropriate and using a discount rate of x% (in line with the market rates as at 30 June 20X1). No impairment losses have been recognised on these assets.
- **Regulatory or operational framework:** No major changes to the Company's operational framework, including to major suppliers, customer segments or the Company's workforce, are expected for the

16 Annual Report of Domain Holdings Australia Limited for the year ended 30 June 2020 was used as a base in developing this example.

17 The considerations for management when making a going concern assessment included in the illustrative examples of this paper are intended to be neither exhaustive nor company specific.

foreseeable future. Additionally, the Company is not expecting any changes to statutory or regulatory requirements that could result in non-compliance of operations or reporting. Therefore, management is confident that there will be no significant disruptions to ongoing operations that may impact the Company's ability to repay its debts as and when they fall due.

Based on the matters outlined above, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, as a result of the impacts arising from the economic situation faced by the company, significant judgement was involved in reaching this conclusion. Therefore, as per paragraph 122 of IAS 1, management shall disclose the judgements made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements[18].

Management's disclosure

Significant judgement – going concern

The Directors consider that the Company has sufficient resources to meet all of its obligations as and when they fall due. Therefore, the financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business.

In concluding this, management has considered the Company's liquidity position, any risks to the cash flows and funding, and the Company's outlook. Sales revenue has significantly decreased during the financial year ended 30 June 20X1 as a result of the temporary downturn in sales activities. However, as of May 20X1, the Company has started offering consulting services on property renovation and was able to generate a new revenue stream to supplement the existing sales revenue. The consulting services are expected to grow further in the coming years and help to further stabilise the Company's liquidity position.

In addition, the Directors have taken a number of measures to reduce the Company's operating costs in response to the temporary downturn in sale activities. The Directors are confident that these measures will optimise the Company's cash flow and liquidity position to strengthen financial position.

In May 20X1, the Company obtained a new $xx million credit facility with a term of five years to strengthen its liquidity and cash position in response to the recent downturn in the real estate industry. The Company further received a waiver to comply with the relevant financial covenants for the financial year ended 30 June 20X1 and six months ending 31 December 20X1. The next covenant testing date therefore is 30 June 20X2.

Finally, the Company has tested its non-financial assets for impairment, updating the assumptions and cash flow forecasts where relevant. A discount rate of x% has been used, which is in line with the market rates as at 30 June 20X1. No impairment losses were recognised as at 30 June 20X1 (see Note Y *Impairment of Assets* for significant assumptions and judgements used in testing non-financial assets for impairment).

The Directors considered financial forecasts, including downside forecast scenarios for the next 24 months from the date of the approval of these financial statements. The forecasts support the preparation of the financial statements on a going concern basis, based on the following assumptions:

- consistent revenue growth from the Company's consulting activities throughout the upcoming financial year;

18 The IFRS IC discussed this issue and noted that the disclosure requirements in paragraph 122 of IAS 1 apply to the judgements made in concluding that there are no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- the Company maintaining the ongoing support of its bank and access to undrawn facilities of $xx million (See Note X *Non-current Liabilities* for more information);
- the Company successfully achieving a reduction in discretionary expenses and marketing expenses by 31 December 20X1; and
- the Company's compliance with its financial covenants at 30 June 20X2.

Illustrative Example 3 – When there are material uncertainties about the entity's ability to continue as a going concern, but the entity is not intending to liquidate or cease trading.[19]

Background: *XYZ Limited (the Company) is a for profit company incorporated and domiciled in Australia. The Company is principally engaged in the business of designing, manufacturing, servicing and repairing of agricultural machinery and equipment. The economy is currently facing a downturn which has resulted in significant economic uncertainty, disruption to the capital markets and a reduction in demand for the Company's products and services. The Company is reliant on its two primary debt facilities, Facility A and Facility B, to maintain its operations. At the reporting date, the Company recorded a significant net loss and negative operating cash flows compared to the prior year and is at risk of breaching the debt covenants as part of Facility B at the next testing date (31 December 20X1). For these reasons, management acknowledges that there are indicators that there may be a material uncertainty regarding the Company's ability to meet its funding requirements and to repay its banking facilities if they fall due.*

Management's assessment for the year ending 30 June 20X1

As per paragraph 25 of IAS 1, when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. 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, those uncertainties shall be disclosed.

As per paragraph 26 of IAS 1, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

In determining whether there are indicators, events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management has considered the following factors[20]:

- **Net profit (loss):** The Company has recorded a net loss after tax of $xx, which has increased by $yy compared to the previous reporting period owing to the impacts of the ongoing economic downturn. However, management is forecasting a return to profitability over the upcoming 12 months driven by the gradual economic recovery and the implementation of cost-cutting measures through the streamlining of activities and processes.
- **Demand for products and services provided:** As a result of the economic downturn, demand for the products and services provided by the Company has decreased significantly compared to the previous reporting period, which has been reflected by a $zz decrease in sales revenue. However, in spite of the continuing economic uncertainty, management is forecasting an increase in demand for the upcoming reporting period as weather conditions for the coming year are predicted to be favourable to farmers with record crops being expected. Therefore, management considers that this increase in demand, paired with the forecasted improvement in profitability over the coming 12 months (described above) will help to improve the Company's financial position.
- **Liquidity and cash position:** The Company has recorded negative operating cash flows of $zz, which is lower than the previous reporting period as a result of the economic downturn. Additionally, as part of the agreement for Facility A, the Company is required to make a $xy repayment to its debt holders on

.

20 The considerations for management when making a going concern assessment included in the illustrative examples of this paper are intended to be neither exhaustive nor company specific.

30 September 20X1. The Company is currently in the process of negotiating an extension on this repayment with its debt holders. At the reporting date, the Company had cash on hand of $xz, net assets of $yx and current assets which exceeded current liabilities by $yz. The Company has also recently undertaken significant cost cutting through the streamlining of activities and made plans for the sale of some of its assets to provide access to short-term funds. Management considers it likely that the Company will be able to obtain an extension on its upcoming repayment in relation to Facility A. However, if this is not the case, management is confident that the targeted reduction in operating costs and plans to sell assets will provide the Company with sufficient funds to make the required payment on 30 September 20X1 and future payments required under this facility.

- **Compliance with financial covenants:** As part of the agreement for Facility B, the Company is required to comply with debt covenants as at 31 December 20X1. The debt holders previously agreed to amendments to the Company's facility agreement, including new simplified debt covenants based on forecast profitability/liquidity and an extension of the working capital facility to 30 June 20X2. As per this amendment, failure for the Company to meet its obligations would constitute an event of default, meaning the entire loan facility would fall immediately due and payable on demand. Based on the financial results as at 30 June 20X1, the Company might be at risk of breaching the debt covenants at the next testing date of 31 December 20X1. However, management is confident that the cost reduction measures and the predicted increase in demand for the Company's products and services will enable compliance with the debt covenants at the upcoming testing date. In the event that this should fail, based on previous discussions with the debt holders, management is confident that, in light of the economic downturn, the debt holders will provide a waiver to this expected covenant breach.
- **Impairment testing:** The Company has tested its non-financial assets for impairment, updating the assumptions and cash flow forecasts where appropriate and using a discount rate of y% (in line with the market rates as at 30 June 20X1). Based on this, the Company recognised an impairment loss of $zx for the year ending 30 June 20X1, owing to the economic downturn and subsequent impacts on demand for the Company's products and services.
- **Regulatory or operational framework:** No major changes to the Company's operational framework, including to major suppliers, customer segments or the Company's workforce, are expected for the foreseeable future. Additionally, the Company is not expecting any changes to statutory or regulatory requirements that could result in non-compliance of operations or reporting. Therefore, management is confident that there will be no significant disruptions to ongoing operations.

Based on the matters outlined above, management concluded that while management is confident that the entity will be able to continue as a going concern, there are material uncertainties that may cast significant doubt upon the entity's ability to continue as a going concern. Therefore, as per paragraph 25 of IAS 1, management is required to disclose those uncertainties.

Management's disclosure

Material uncertainty about going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business. However, during the year ended 30 June 20X1, the Company experienced a significant reduction in revenue as a result of the economic downturn, recorded a net loss after tax of $xx, negative operating cash flows of $zz and an impairment loss of $zx. While the Company had cash on hand of $xz, net assets of $yx and current assets which exceeded current liabilities by $yz, there are concerns that it may not be able to make the required repayments under its debt Facility A and comply with the debt covenants under its Facility B.

As part of the agreement for Facility A, the Company is required to make a $xy repayment to its debt holders on 30 September 20X1. As a result of the recent decrease in demand and profitability, management acknowledges that there is uncertainty around the Company's ability to repay this debt.

However, the Company is currently in the process of negotiating an extension on this repayment with its debts holders.

At the same time, the Company has been able to achieve significant cost reductions through the streamlining of activities and has identified a number of assets for sale to provide access to short-term funds. Should the Company be unable to obtain an extension on the repayment, management considers that these initiatives would provide access to sufficient funds to enable the Company to repay this debt.

At the reporting date, based on the Company's financial results, there is some uncertainty as to whether the Company will be able to satisfy its debt covenants as part of Facility B at the upcoming testing date of 31 December 20X1. The Company's debt holders previously agreed to amendments to the facility agreement including new simplified debt covenants based on the Company's forecast profitability and liquidity up to 30 June 20X2. Should the Company fail to meet its obligations under the amended agreement, this would constitute an event of default and would result in the loan facility becoming due and payable on demand. While the directors expect that the cost reductions and forecasted increase in demand for the Company's products and services should ensure the covenants will be met, they have also commenced discussions to refinance Facility B or at least obtain a waiver on the covenants from the debt providers.

The Company has additionally tested its non-financial assets for impairment, updating the assumptions and cash flow forecasts where relevant. A discount rate of y% has been used, which is in line with the market rates as at 30 June 20X1. An impairment loss of $zx was recognised for the year ending 30 June 20X1, primarily due to the economic downturn and associated reduction in demand for the Company's products and services (see Note Y *Impairment of Assets* for significant assumptions and judgements used in testing non-financial assets for impairment).

Management notes there is particular uncertainty around the extent and duration of the expected economic downturn, including the impacts on the capital markets and changes in customer demand.

While the financial forecasts prepared by the directors support the ability of the Company to continue as a going concern, this is based on the following assumptions:

- a progressive economic recovery with increasing sales / operating cash flows over the long term;
- favourable weather conditions for farmers resulting in a shorter-term increase in demand for the Company's products and services offered to these customers;
- the ability to further cut costs through the streamlining of activities and processes;
- the Company's debt holders providing an extension on the repayment due on 30 September 20X1 as part of Facility A, or management's ability to sell some of its assets and sufficiently reduce operating costs to provide the funds required to repay this debt; and
- the Company's ability to meet the covenants under Facility B as at 31 December 20X1, the debt holders agreeing to provide a waiver or the debt holders agreeing to renegotiate the terms of the facility.

The Directors believe that they will be successful in obtaining the funding required to ensure the Company can continue operations for the foreseeable future based on the matters outlined above and, therefore, they are confident that the going concern basis on which the financial statements have been prepared is appropriate. However, should the Company be unable to meet its funding requirements and repay its banking facilities as they fall due, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be required to realise assets at different amounts to those recorded in the Statement of Financial Position and settle liabilities other than in the ordinary course of business.

4. Lack of guidance on the basis of preparation when an entity is no longer a going concern

4.1 Background

Financial statements are normally prepared on the assumption that an entity is a going concern and accounting standards are written to reflect the going concern basis of accounting. However, 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.

When an entity does not prepare its financial statements on a going concern basis, IAS 1 requires that 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. In assessing whether the going concern assumption is appropriate, management should consider all available information about the future. Specifically, management should consider information for at least, but not limited to, the next 12 months from the end of the reporting period (IAS 1 para. 26). However, the accounting standards do not specify how the basis of preparation should be adjusted, or what the revised basis should be.

There is inconsistency in practice regarding the basis of accounting that is used when the going concern assumption is no longer appropriate. Due to the lack of guidance, some financial statements may use the accounting standards, while others may be prepared using a liquidation basis. Improved guidance will result in greater consistency of information provided to users of financial statements.

4.2 What have we heard?

Based on the outreach undertaken (as specified in section 2.3), the AASB has received the below feedback in relation to the lack of guidance on the basis of preparation when an entity is no longer a going concern.

Participants in the AASB's outreach program who were familiar with reporting on a non-going concern basis provided support for guidance as a means of enhancing the consistency and comparability of financial statements. These participants noted that such guidance would be particularly helpful for smaller firms that typically lack access to the internally generated guidance available in larger firms.

In general, participants were of the view that, when an entity is no longer a going concern, the alternative basis of preparation should still comply with the IFRS conceptual framework. However, some participants indicated that other methods, such as a liquidation basis, have merit, and each method's appropriateness ultimately depends on the specific circumstances, such as the purpose of the financial statements and users' needs. Participants noted that the current lack of guidance on the basis of preparation to apply when an entity is no longer a going concern has led to a diversity in practice whereby various accounting bases are used as there are mixed views on:

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

f) how to measure employee entitlements to reflect the changes in circumstances.

Participants at the AUASB roundtable event also indicated that the IASB should consider providing guidance on an alternative basis of preparation when the going concern basis of accounting is not appropriate.

Most participants expressed the view that, although the existing lack of guidance in this area is a longstanding concern, it is not the most pertinent current issue warranting the IASB's focus. However, participants provided support for the IASB to conduct research to gauge the prevalence of the issue, including the extent of diversity across entities and jurisdictions, from a broader perspective prior to undertaking any standard-setting solution.

The AASB received various views from participants during outreach which are not included above as they did not reflect the views of the majority. See Appendix C for the details of the AASB outreach program and further details of feedback received from the participants.

4.3 Analysis of previous IASB discussion

IASB meeting May 2014

When deliberating upon the proposals for incorporating the going concern assumption into the revised Conceptual Framework in May 2014, the IASB discussed whether it should issue any guidance on financial statements that are prepared when an entity is not a going concern.

The IASB staff paper acknowledged that the existing Conceptual Framework did not specify what changes should be made to the financial statements if it is determined that an entity is not a going concern and that it only stated that the new basis of accounting should be disclosed (May 2014 IASB staff paper). However, IASB staff did not recommend providing guidance on the preparation of financial statements by entities that are no longer operating under the going concern assumption as the benefit of providing further requirements at an international level may be limited. The reason provided was that many jurisdictions may have specific requirements on the information that should be provided in liquidation. However, IASB staff noted a possibility of the IASB issuing standards-level guidance if a future agenda consultation indicates it as a priority.

At this meeting, the IASB decided that the revised Conceptual Framework should not address the preparation of financial statements by entities that are no longer a going concern (See May 2014 IASB Update).

Assessment of IASB's deliberations

The feedback received during the AASB's outreach confirmed that the diversity in the preparation of financial statements for entities that are no longer a going concern could, to some extent, stem from differences in entities' circumstances, jurisdiction and regulatory requirements as considered by the IASB.

The existing lack of guidance on the non-going concern basis of preparation is a longstanding concern. While 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, this alone is not considered to be a valid reason to initiate standard-setting, as any standard-setting by the IASB will take several years, by which time the current issues will likely be resolved. However, the AASB notes that this lack of guidance was a concern prior to the pandemic and will continue to be an issue in the long term

Therefore, a larger-scale research project initiated by the IASB could serve to provide a more complete understanding of the underlying issue at hand, the extent of diversity in practice and, ultimately, the need for standard-setting as a potential future solution.

4.5 Recommendation to the IASB

After considering the views of a range of Australian and international stakeholders and the work done to date, the AASB recommends that the IASB initiate a research project to assess:

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

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

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

d) the extent of current diversity in practice and, therefore, the need for standard-setting in this area.[21]

The AASB acknowledges that the addition of a research project to the IASB pipeline will depend on factors such as the urgency of the problem, extent and complexity of the research required, resourcing requirements, other projects in the current work program and interactions with other current or future projects.

The findings of such a research project would ultimately assist the IASB in determining the extent and prevalence of issues relating to the existing lack of guidance when preparing financial statements for entities that are no longer a going concern. It would also allow the IASB to determine the best solution to address the matter, whether through standard-setting or alternative means.

21 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.

Appendix A: Questions provided to the participants in AASB outreach program in February-March 2021

Going concern disclosures

1. 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?

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

Going concern disclosures (Users)

2. 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?

Non-going concern basis of preparation

3. 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?
4. 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?
5. 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?

Appendix B: Questions provided to the participants of the international meetings

IFASS October 2020 and AOSSG November 2020

1. Have you issued any additional guidance on the basis of preparation where the entity is no longer a going concern in your jurisdiction?
2. Do you have concerns in your jurisdiction with the lack of guidance for entities that are no longer a going concern? If so, what causes those concerns? For example, lack of consistency or comparability between different entities when no longer a going concern, unclear what the revised accounting basis is, unclear whether comparative information is relevant.
3. In light of the responses to the questions asked above, do you support the suggestion for the IASB to undertake a project to consider the requirements for the basis of preparation where the entity is no longer a going concern?

IFASS March 2021

1. Is the recent educational guidance issued by the IASB sufficient to address issues relating to going concern disclosures?
2. Are there any other standard-setters who are carrying out or planning to carry out domestic standard-setting or research in relation to going concern?
3. Are there any other issues concerning going concern that should be raised through the IASB Agenda Consultation?

Appendix C: The AASB outreach program and feedback received

International Outreach

AASB and NZASB staff jointly presented at several international meetings where valuable feedback was obtained from the other national standard-setters (See Appendix B for the questions provided to the participants of the international meetings). These meetings included:

a) IFASS meeting October 2020;

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

c) IFASS meeting March 2021.

Local outreach

At the AASB User Advisory Committee (UAC) Meeting held in July 2020 (12 UAC members were in attendance), AASB staff discussed:

a) whether the issues relating to going concern assessments and disclosures should be addressed internationally;

b) the adequacy/usefulness of the current going concern-related disclosures in the financial statements; and

c) how going concern-related disclosures and assessments could be improved.

In formulating its response to the IAASB's Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements,* in December 2020 the AUASB sought input from its constituents by hosting virtual roundtable meetings with stakeholders representing assurance providers from the private and public sectors, academics, regulators and the professional accounting bodies across Australia[22]. AASB staff have also considered the feedback received during the AUASB's roundtable event in relation to the expectation gap between auditing and accounting standards to support the AASB recommendations to the IASB.

Between February and March 2021, AASB staff conducted one-on-one telephone interviews with local stakeholders who had expressed interest in participating and sharing their views. A few stakeholders who were unable to attend the telephone interviews provided their responses in writing.

The interviews were based on four questions targeting two main areas (See Appendix A for the questions provided to the local participants); the adequacy of current going concern disclosures and the lack of guidance for the basis of preparation when an entity is no longer a going concern.

The stakeholders who participated in this outreach are known to apply, analyse, audit, regulate or otherwise use the IFRS requirements. The number of participants within each of these categories is outlined in the following table:

22 See AUASB submission to the IAASB

Representative Group	Total participation
Audit firms	10
Users including analysts and investors	9[23]
Preparers	2
Professional bodies	2
Regulators/standard-setting bodies	3
Total	**26[24]**

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

Adequacy of current going concern disclosures

Summary of international feedback

The IASB representatives[25] were of the following views:

a) With respect to going concern disclosures, there are perceptions that the requirements in IAS 1 to disclose material uncertainties (paras. 25–26) and significant judgements, assumptions about the future and major sources of estimation uncertainty (paras. 122 and 125) are sufficient and work well. Thus, there may be no problems to address.

b) The objectives of the International Standards on Auditing (ISAs) and International Financial Reporting Standards (IFRSs) are quite different. Auditors are required to use professional judgement to opine on management's judgements. Hence, they need more guidance which is reflected in the ISAs.

c) In proposing any changes, it will be important to consider the IASB's Disclosure Initiative Project and ensure not to undermine the objectives of that project. For example, a key consideration should be whether the development of additional disclosures could promote a disclosure checklist mentality and contribute to disclosure overload.

d) The IASB discussed proposed amendments to IAS 1 in relation to Going Concern in 2012/2013 but ultimately decided to not to proceed with these, and the project was terminated. Thus, it is important to understand whether there is any new information or solutions, and why the IASB

23 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.

24 Six of the participants were interviewed together at a virtual forum which included four audit firm representatives, one preparer (who provided feedback in the capacity of a user as well in some instances) and one representative from Regulators/standard-setting bodies.

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

would come to a different conclusion now. There is also a question as to whether this is a standard-setting issue or more so a compliance/enforcement issue.

IFASS and AOSSG members supported the AASB and NZASB's recommendations for the IASB to undertake a fundamental review of the going concern disclosures and evaluate the need to develop requirements relating to the basis of accounting where the going concern assumption is no longer appropriate.

The feedback received from members of the international conferences is summarised as follows:

a) Several jurisdictions agreed that the IASB should undertake a project to improve the current going concern disclosures, and a few jurisdictions noted that this is an international issue that should be addressed by the IASB rather than by the local standard-setters.
b) One participant observed that the IASB must act quickly to avoid domestic standard-setting by national standard-setters. However, another participant argued that accounting standards should not be written for the pandemic, even though this will remain a challenge for the coming years.
c) One member observed that any additional specific disclosures contradict the disclosure initiative project currently underway. Another member highlighted that, while some preparers might be confused about the level of information required to be disclosed in relation to going concern, the principles-based nature of IFRS Standards should be maintained. This member also noted that many corporate regulators already prescribe certain going concern disclosures.
d) Another member provided support for alignment between the requirements in auditing and accounting standards. However, this member specified that the IASB should carry out research to understand the diversity in practice first.
e) One member mentioned that, despite the IASB's guidance, some entities are applying an overly narrow focus on the period of 12 months from the reporting date when assessing going concern.

Summary of local feedback

There were mixed views from the participants in the AASB's local outreach program on the adequacy of the current going concern disclosure requirements in IFRS Standards and the recent guidance issued by the IASB.

Participants other than users

Several participants were of the view 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 adequate over the past year in spite of the significant challenges posed by COVID-19.

These participants agreed that the key issues underlying going concern disclosures may be related to compliance with the existing requirements. The issues underlying going concern reporting may be related to enforcement rather than fundamental deficiencies with the standards themselves.

However, several participants did not consider the current disclosure requirements to be sufficient, noting that they are not prescriptive enough in terms of what and how much information to provide. These participants were of the view that preparers need more guidance on how to assess going concern. One participant suggested that a separate accounting standard for going concern, equivalent to the auditing standard ISA 570, could be useful.

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

A few participants noted that the judgements made by preparers when assessing going concern, including situations where there is no material uncertainty related to going concern, are not always adequately disclosed. According to these participants, the lack of disclosure could be addressed either by more prescriptive disclosure requirements or by additional educational material.

Another participant stated that the disclosures could be improved through further education rather than by adding more requirements. One more participant said they would support educational materials similar to that provided by the AASB and AUASB on climate change.[26]

One participant thought that, currently, disclosures are not the IASB's biggest priority. Another participant noted that standard-setters should not develop disclosure requirements that reflect the current economic conditions caused by COVID-19 but rather ensure that any solution developed has recurring usefulness and value in a post-COVID-19 environment.

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

Users

Many of the users who participated in the outreach stated that going concern disclosures alone are insufficient to make informed economic decisions. While effective at 'raising a red flag', they do not provide enough information alone to assess the significance of the going concern issues. As a result, financial statement users are required to find additional information in the 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.

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. There is a 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.

Several users 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 expressed an opinion that introducing additional checklists for directors to follow would not be helpful. Another participant noted that the continuous disclosure requirements for listed entities in Australia ensure that information is available before financial statements are issued.

The majority of financial statement users supported further clarity on going concern disclosures to improve their ability to make economic decisions about their investments. Specifically, participants were supportive of more information about why an entity is or 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 and the entity's working capital requirements that are needed to

26 The AASB and AUASB issued a joint guidance on *Climate-related and other emerging risks disclosures* in December 2018.

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.

UAC members

Notably, UAC members[27] were generally satisfied with the current accounting disclosures in relation to going concern. Members specifically noted that:

a) Disclosures are reasonably comprehensive in addressing why they are a going concern in the case of material uncertainty. One member provided an example that the most useful disclosures specify the entity's going concern status, reasons why management believes the entity is a going concern and provide details of the assumptions in determining that.

b) Whether an entity is a going concern is usually known prior to the release of the financial statements.

Outreach participants (in relation to the disclosure requirements in the auditing standards)

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 participants noted that the recent amendments made in New Zealand 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 by participants as reasonable as they provide auditors with more prescriptive guidance to assist them in determining the questions to ask management. The other participants in this group did not offer any views on this matter.

AUASB (reflecting the debate at AUASB roundtables)

Based on feedback received during its virtual roundtables, the AUASB considers that there is a performance gap, for preparers of financial statements in addition to auditors, which needs to be addressed through greater education and enhanced accounting standard requirements. Specifically, the AUASB received feedback that the primary issue underlying this gap is the inconsistency and variability in how management/TCWG fulfil their responsibilities when making going concern assessments.

The AUASB is of the view that the lack of going concern requirements in the accounting standards, particularly when compared to the requirements in relation to other individualised accounting issues, is a fundamental issue, given the focus on the area by users and the importance of the concept to the operation of the capital markets and economic investment. The AUASB supports better alignment of the accounting and auditing standards, and more detailed requirements and/or guidance for management and TCWG on how to make going concern assessments.

Overall, based on feedback received, the AUASB's submission to the IAASB Discussion Paper (DP) *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit* provided support for more granular requirements in the Accounting Standards for management and TCWG including:

27 It should be noted 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.

- a reconsideration of the definition of going concern and whether it remains fit for purpose;
- the provision of guidance on the qualitative and quantitative factors to consider when interpreting the going concern definition;
- the provision of minimum requirements on how to perform robust going concern assessments and quality of sources of information underlying these;
- explicit financial statement disclosure requirements for all scenarios on the spectrum of risk (i.e. no significant uncertainty; there are events or conditions, but significant judgement was utilised to conclude a material uncertainty does not exist; or a material uncertainty exists); and
- adequate and consistent definitions for a Material Uncertainty Related to Going Concern (MURGC) and the inability to continue as a going concern, and guidance to support more consistent application of these concepts.

Furthermore, based on a review of the May 2021 IAASB agenda paper on Going Concern, the AASB notes that the IAASB received 85 responses from a broad range of stakeholders in response to their Discussion Paper.

Some of the key themes in relation to collaboration with others arising from responses to the DP included support for:

- the going concern requirements for management to be enhanced, which would require changes to the applicable financial reporting framework;
- the alignment of the financial reporting requirements and auditing requirements to enhance the quality of going concern assessments and related audit procedures; and
- the IAASB to liaise and engage with the IASB regarding requirements in the applicable financial reporting framework related to going concern.

AUASB Professional Investors Survey

In 2019, the AUASB conducted a survey of professional investors and analysts to determine their perspectives on audit quality in Australia. As part of the survey, going concern disclosures and judgements were selected by 72% of respondents as the highest priority for regulators and standard-setters' attention. This indicates the importance placed by professional investors on preparers ensuring there are adequate and appropriate disclosures in relation to going concern in the financial statements.

Lack of guidance on the basis of preparation when an entity is no longer a going concern

Summary of international feedback

IASB representatives acknowledged that there is a lack of guidance in IFRS standards regarding how the basis of preparation should be adjusted when an entity is no longer a going concern. However, whether the IASB can address the issue is a question of priority, given the many other topics in the IASB's project pipeline.

One participant noted that the IASB would need to consider that various jurisdictions may have different local regulations controlling this matter. The participant was concerned that the IASB may not be able to address all national variations for liquidation. Another member thought that the IASB should carry out research to better understand the various regulations that are already in place.

Summary of local feedback

Current lack of guidance in the accounting standards for the financial statements of entities that are no longer a going concern

Several participants were unfamiliar with the non-going concern basis of preparation as they do not usually see financial statements prepared on that basis. These participants, therefore, did not provide any comments.

Several participants indicated that guidance on the non-going concern basis of preparation would be useful to ensure consistency and comparability across financial statements. They suggested that such guidance would particularly benefit smaller audit firms which lack access to the internally developed guidance available in larger firms. These participants indicated that 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.

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 increase in the number of entities reporting on a non-going concern basis.

One user indicated 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 included.

However, several participants did not identify this as a major concern since entities under external administration are generally relieved from reporting, and questions in this area are therefore rare.

Application of the alternative basis of preparation when an entity is no longer a going concern

Many of the participants who responded to this question were of the view that the alternative basis of preparation when an entity is no longer a going concern should still comply with the existing IFRS conceptual framework.

Several participants believed that the purpose of the financial statements and user needs should determine the suitable measurement basis for the non-going concern basis of reporting. One participant noted that both a liquidation basis (which, in their view, recognises provisions for wind up costs and assets at fire sale value – such as a sale of goods or assets at a very low price – typically when the seller is facing bankruptcy) and a non-going concern basis which follows IFRS Standards have merits, and the appropriateness of each method depends on the circumstances.

Should the IASB undertake a project to consider the requirements for the basis of preparation where the entity is no longer a going concern?

Most participants who expressed a view on this question 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 warranting the IASB's focus. One participant recommended the IASB undertake further research and outreach to gauge the prevalence of the issue from a worldwide perspective.

Only one participant thought there were questionable benefits from such a project as, in their view, it may already be too late for shareholders when the entity is no longer a going concern.

The participants who supported 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.

The feedback received during the AUASB roundtable event was supportive of the IASB providing guidance on an alternative basis of preparation when the going concern basis of accounting is not appropriate.

Glossary

Abbreviation	Meaning
AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
AcSB	Accounting Standards Board (Canada)
AG	Application Guidance
AOSSG	Asia-Oceanian Standard-Setters Group
AUASB	Australian Auditing and Assurance Standards Board
DP	Discussion Paper
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IE	Illustrative Examples
IFASS	International Forum of Accounting Standard Setters
IFRS	International Financial Reporting Standard
IFRS IC	International Financial Reporting Standards Interpretations Committee
IG	Implementation Guidance
ISA	International Standard on Auditing
MURGC	Material Uncertainty Related to Going Concern
NSS	National Standard-Setter(s)
NZASB	New Zealand Accounting Standards Board
PFS	Primary Financial Statements
PJC	Parliamentary Joint Committee on Corporations and Financial Services
SSF	Standard-Setting Framework
TCWG	Those charged with governance
UAC	User Advisory Committee