



Project:	Going Concern	Meeting	AASB June 2021 (M181)
Topic:	Cover memo	Agenda Item:	10.0
		Date:	7 June 2021
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		Decision-Making:	High
		Project Status:	Draft staff Paper

Objective of this paper

- The objective of this agenda item is:
 - for the Board to **review** working draft of the Going Concern staff paper; and
 - to **decide** on the next steps and timeline.

Attachments

Agenda Paper 10.1 Going Concern Disclosures: A Case for International Standard-Setting
(working draft – **Board only**)

Background and reasons for bringing this agenda item to the Board

- In 2019 the Australian Senate referred an inquiry into the regulation of auditing to the Parliamentary Joint Committee on Corporations and Financial Services (PJC). As a result of the inquiry, the PJC issued its [final report](#) in November 2020, with one of the recommendations suggesting a review of reporting requirements in relation to management's assessment of going concern. The PJC recommended the Financial Reporting Council (FRC) oversee a formal review, to report by the end of the 2020–21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian Accounting Standards in relation to management's assessment of going concern.
- The uncertainty arising from the current economic environment and the unprecedented impact COVID-19 had on the economic outlook for the Australian and global economy further emphasised the importance of revisiting the going concern disclosures
- At its June 2020 meeting, the Board noted the New Zealand Accounting Standards Board's (NZASB) proposals to amend FRS 44 *New Zealand Additional Disclosures* to require additional disclosures relating to going concern uncertainties and judgements. At that time, the Board decided not to add a corresponding project to the AASB's Work Program and decided to undertake a longer-term project focussed on influencing the International Accounting Standard Board (IASB) to undertake a fundamental review of the requirements of IAS 1 *Presentation Financial Statements* relating to going concern assessment and disclosures. The Board also agreed to recommend the IASB to issue guidance addressing the basis of

preparation where the going concern assumption is no longer appropriate (see [AASB Action Alert](#)).

- 5 At its November 2020 meeting, the Board decided to develop a staff paper addressing:
- (a) the adequacy of going concern disclosures currently required by IAS 1 (and its Australian equivalent AAS 101);
 - (b) the lack of guidance on the basis of preparation where the going concern assumption is no longer appropriate; and
 - (c) recommendations on how the IASB could address the issues identified.

The Board also decided to include its findings in the submission to the IASB's upcoming agenda consultation, which was issued in March 2021 and is open for comment until 27 September 2021 (See [AASB Action Alert](#)).

- 6 AASB staff collected feedback from Australian and international stakeholders on the above topics. The international outreach activity included presentations at various international meetings.
- 7 After considering the views of a range of Australian and international stakeholders on the adequacy of current going concern disclosure requirements in IAS 1, the Board decided at its April 2021 meeting to recommend the IASB to revisit IAS 1 in order to:
- provide in the Application Guidance or Implementation Guidance more explicit guidance to preparers on how to assess whether there are significant doubts about going concern, what mitigating actions may be considered and whether material uncertainties remain after that assessment and disclose meaningful information;
 - provide guidance on how the general disclosure requirements relating to significant judgements and sources of estimation uncertainty of IAS 1 apply when preparing the going concern disclosure to ensure entities disclose the key factors which have led to their assessment that the entity is (or is not) a going concern.
 - include specific examples in Illustrative Examples (or other part of the standard).

- 8 The Board also decided to recommend the IASB add to its work program a research project to understand better the impact of the lack of guidance on the basis of preparation when an entity is not a going concern, including the extent of diversity in practice, to determine whether standard-setting action is required (see [AASB Action Alert](#)).

- 9 The next step for the Board is to review the working draft of the Going Concern staff paper. This cover memo summarises the nature of the questions (which are included in comment boxes in the agenda paper 10.1) the Board will be asked at this meeting.

Working draft of the Going Concern staff paper

- 10 Agenda paper 10.1 is a working draft of the Going Concern staff paper and reflects a summary of outreach findings, scope, analysis, and recommendations.
- 11 The key considerations and questions to Board members are included in comment boxes in agenda paper 10.1. Staff are seeking Board's view on those matters, in particular section 2, section 3.3, paragraph 58 of section 3.4 and section 4.3 of the paper.
- 12 For the purpose of this Board meeting, staff have inserted three (4) sequentially numbered questions in Agenda paper 10.1 to obtain Board views.

Next Steps

- 13 Staff are not seeking the Board’s approval of the Going Concern staff paper at this meeting, as the IASB Agenda Consultation is open for comment until September 2021. Rather staff are seeking Board’s view on specific matters and general feedback.
- 14 At the April 2021 meeting, the Board considered the timeline of the project and agreed with the staff recommendation to review the final draft of the Going Concern staff paper out-of-session by the Chair or subcommittee.
- 15 The Board will approve the final draft of the AASB submission to IASB at its September meeting.
- 16 The timeline for the project is as follows:

Task	Timing
Discuss working draft of the Going Concern staff paper with Board members	At this meeting
Staff to address Board members’ comments	Week commencing 28 June 2021
Approve the final draft of the Going Concern staff paper	Out of session (by a Chair or sub committee) in August 2021
Publish the Going Concern staff paper on the AASB website and in any other publication (e.g. publications issued by professional bodies)	End of August 2021
Staff to include comments in the draft of AASB submission to the IASB Agenda Consultation	August 2021
Board to approve AASB’s submission to IASB Agenda Consultation	8-9 September 2021
IASB Agenda Consultation RFI closes	27 September 2021

Questions to Board members
Q5 Do Board members agree to approve the final draft of the staff paper out-of-session via the Chair or to form a sub-committee?
Q6 Do Board members have any other feedback to share with staff?