



THE 12th ANNUAL AOSSG MEETING
*Joining hands in regional cooperation and the development
of IFRS*
November 23-25, 2020, Virtual Meeting

Going Concern

Anthony Heffernan, Director Accounting Standards, XRB (New Zealand)
Keith Kendall, Chair, AASB (Australia)



Agenda

- ❑ Improving Going Concern disclosures
- ❑ Basis of preparation where the entity is no longer a going concern

Improving Going Concern Disclosures

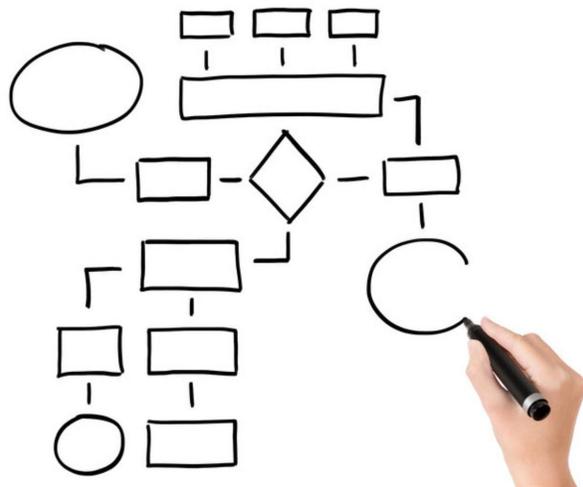
Anthony Heffernan – Director Accounting Standards, XRB

AOSSG Presentation: November 2020



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho



Improving going concern disclosures

- Current going concern disclosure requirements
- What's the issue?
- NZASB response
- What our constituents said
- Questions

Current going concern disclosure requirements

Currently IFRS only includes limited disclosure requirements about management's assessment of an entity's ability to continue as a going concern

NZ IAS 1 *Presentation of Financial Statements*, paragraph 25

- Paragraph 25 requires disclosure of any **material uncertainties** related to **events or conditions that may cast significant doubt** upon the entity's ability to continue as a going concern
- When an entity does not prepare financial statements on a going concern basis, 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

The IFRS Interpretation Committee in July 2014 observed that in circumstances where management had considered **events or conditions that may cast significant doubt** upon the entity's ability to continue as a going concern, but concluded that there was no material uncertainties that **paragraph 122 of IAS 1** would apply when this conclusion had involved significant judgement

What's the issue?

COVID-19 has heightened concerns by users about the adequacy of going concern disclosures

Concerns include:

- **Diversity in practice** over the information provided in circumstances when the financial statements are prepared on a going concern basis, but management are aware of events or conditions that may cast significant doubt on this judgement.
- Investors, auditors and regulators **want more disclosures** when management's going concern assessment has involved:
 - (a) significant judgement; and/or
 - (b) material uncertainties
- Perceived **disconnect** between the requirements in accounting and auditing standards



What's the issue?

The auditing standards expect the disclosure of information on going concern that is **not specifically required by the accounting standards**

ISA 570 (revised) *Going Concern, paragraph 19*

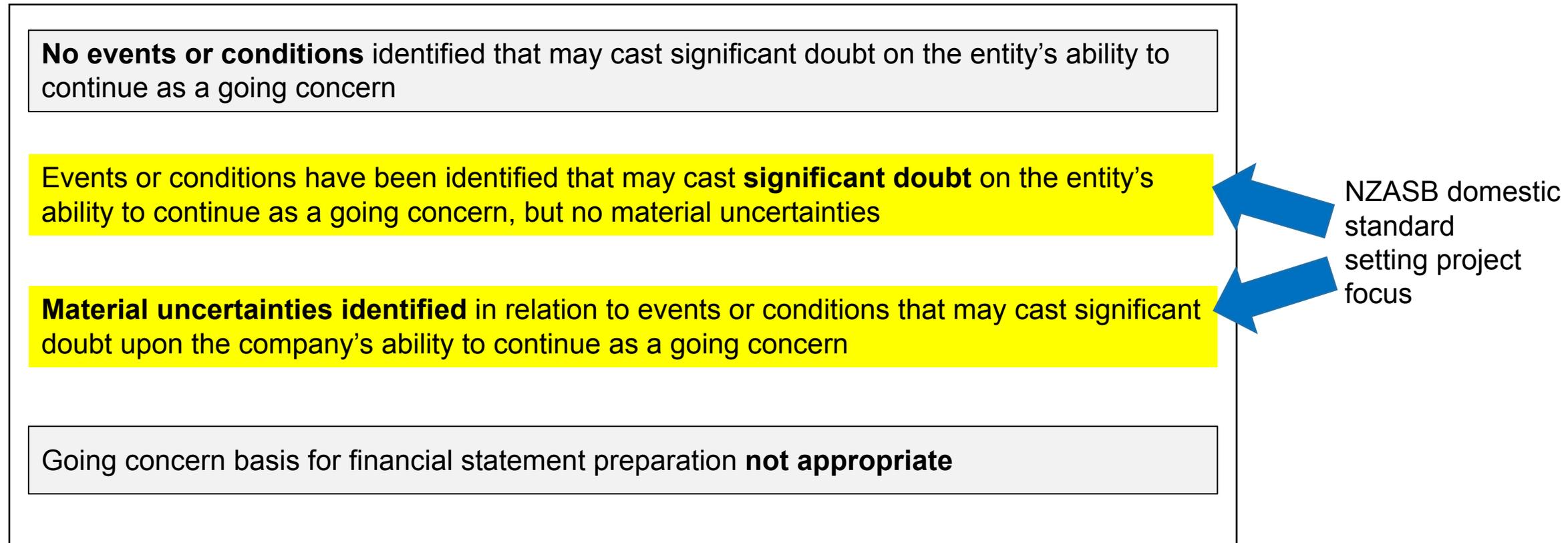
In circumstances where a material uncertainty exists, the auditor shall determine whether the financial statements adequately disclose:

- 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.**

Auditors also noted there are no specific going concern disclosure requirements for 'close call' situations, for circumstances in which the conclusion that there are no material uncertainties has involved the application of significant judgement

NZASB Response

The NZASB proposed, and subsequently approved, new specific going concern disclosure requirements for circumstances when an entity's going concern assessment has resulted in the middle two conclusions.



New specific going concern disclosures

Specific disclosures about **significant judgements** management has applied in forming its conclusions on the entity's ability to continue as a going concern

Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. **To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.**

New specific going concern disclosures

Disclosures about **material uncertainties** management is aware of in forming its conclusions on the entity's ability to continue as a going concern

When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. It requires an entity to prepare financial statements 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. Furthermore, 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, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. **When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:**

- (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;**
- (b) information about the principal events or conditions giving rise to those material uncertainties;**
- (c) information about management's plans to mitigate the effect of those events or conditions; and**
- (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities.**

What our constituents said

The proposed specific going concern disclosures were broadly supported as they will:

- Improve the financial information provided when the going concern assessment has involved significant judgements and/or consideration of material uncertainties
- Reduce the difficult conversations between preparers and auditors

The proposals were supported by:

- Regulators
- Auditors
- Major accounting firms
- Professional accountancy bodies



Questions to the AOSSG participants

1. Have you encountered similar concerns over going concern disclosures in your jurisdiction?
2. Do you agree that more specific going concern disclosures in accounting standards are required?
3. Should the IASB undertake a project to consider going concern disclosures?



AUSTRALIA'S VIEWS ON GOING CONCERN DISCLOSURES

- ✓ Agree and recommend that the IASB undertake a project on going concern disclosures.

Misalignment between accounting and auditing standards is an ongoing issue

Adequacy of going concern disclosures questioned in domestic Parliamentary enquiries (pre-COVID-19)

COVID-19 highlighted questions around expected going concern disclosures



AASB's response to going concern issues during COVID-19:

- Joint guidance with auditing standard-setter on applying existing international standards
- Considered but decided against adding domestic-level standard-setting
- Noted need for international project on going concern



Basis of preparation where the entity is no longer a going concern

When an entity is no longer a going concern – current requirements

- ✓ Financial statements are normally prepared on the assumption that entity is a going concern
- ✓ Accounting standards are written to reflect the going concern basis of accounting
- ✓ 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

Current requirements where an entity is no longer a going concern

- Disclose that fact
- Adjust basis of preparation and describe revised basis
- Disclose why entity is not a going concern
(AASB 101 paragraph 25)

However, accounting standards do not specify how the basis of preparation should be adjusted or what the revised basis should be



What is the issue?

There are no requirements for the basis of accounting when an entity is no longer a going concern. There are mixed views and mixed practices on many issues, including but not limited to:



Extent to which the accounting standards and/or the Conceptual Framework should be applied?

- Measurement of assets (i.e. write down all assets to realisable values?)
- Recognition of any new provisions, other liabilities and/or contingencies?



- Present/restate comparative information?
- Financial position – changes to current/non-current distinction or re-ordering under liquidation basis?

Accrual of costs and income expected to be incurred or earned, regardless of recognition criteria in Conceptual Framework?



- Measurement of employee entitlements to reflect the changes in circumstances?





A case for international standard-setting?

Why guidance is necessary?

- ✓ Accounting Standards do not specify an alternate basis of preparation – need for clear guidance (see previous slide)
- ✓ Need for comparability between entities where going concern assumption is no longer appropriate
- ✓ Some entities that are no longer a going concern continue to lodge financial statements in accordance with accounting standards (i.e. stating compliance with IFRS Standards):

Examples:

Car Manufacturing industry in Australia (Ford and Holden)

Mining companies

Limited life funds



Who would benefit from this?

Preparers

- Clear guidance for preparers on what to do when no longer a going concern

Users

- Creditors and analysts would have more consistent and comparable information

Auditors

- Clear basis of accounting for auditors to provide an opinion against



What do we recommend?

The AASB recommends IASB to:



Add fundamental review of the requirements related to going concern basis of accounting, where the going concern assumption is no longer appropriate and associated disclosures, to its work program



Carry out research to evaluate the need for standard-setting activity





Questions to the AOSSG participants

Questions

Question 1: Have you issued any additional guidance on the basis of preparation where the entity is no longer a going concern in your jurisdiction?

Question 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.

Question 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?

EG: USA - ASU No. 2013-07,
Presentation of Financial Statements
(Topic 205): Liquidation Basis of
Accounting – April 2013





Sign up for
our newsletter!



AASB

Thank You.



Keith Kendall, AASB Chair



+61 3 9617 7615



kkendall@asb.gov.au



www.aasb.gov.au



LinkedIn



Australian Government
Australian Accounting Standards Board

Disclaimer This presentation provides personal views of the presenter and does not necessarily represent the views of the AASB or other AASB staff. Its contents are for general information only and do not constitute advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation. This presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of AASB staff.

Disclaimer

This presentation provides personal views of the presenter and does not necessarily represent the views of the XRB or other XRB staff. Its contents are for general information only and do not constitute professional advice. The XRB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation. The contents of this presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of XRB staff.



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho