IFRS

STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10)**
Paper topic	Comment letters on tentative agenda decision

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Introduction

1. In February 2021, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about the accounting applied by an entity that is no longer a going concern.

2. The submission asked whether the entity:

   (a) can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those periods (Question I); and

   (b) restates comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously issued financial statements for the comparative period on a going concern basis (Question II).

3. The Committee observed:

   (a) applying paragraph 25 of IAS 1 *Presentation of Financial Statements* and paragraph 14 of IAS 10 *Events after the Reporting Period*[1], an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a

[1] Appendix B to this paper reproduces these paragraphs.

going concern basis. Accordingly, for Question I the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

(b) based on its research, no diversity in the application of IFRS Standards with respect to Question II. Entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis. Therefore, the Committee had not yet obtained evidence that the matter has widespread effect.

4. Consequently, the Committee tentatively decided not to add a standard-setting project on these matters to the work plan and, instead, published the tentative agenda decision.

5. The objectives of this paper are to:

(a) analyse comments on the tentative agenda decision (paragraphs 7–29); and

(b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 30).

6. There are two appendices to this paper:

(a) Appendix A—proposed wording of the agenda decision; and

(b) Appendix B—excerpts from IFRS Standards.

Comment letter summary

7. We received 16 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website[2]. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 3A.

8. Most respondents generally agree with the Committee's analysis and conclusions in the tentative agenda decision. However, some disagree with aspects of the tentative

[2] At the date of posting this agenda paper, there was one late comment letter.

agenda decision and/or request clarifications. In particular:

(a) regarding Question I:

(i) a few respondents say preparing financial statements for prior periods on a non-going concern basis could be impractical, require undue cost or effort and might not provide useful information to users of financial statements.

(ii) one respondent says the entity described in the fact pattern should assess the going concern assumption at the end of the reporting period for which financial statements are being prepared and not when preparing the financial statements. The respondent also asks about the implications of the Committee's conclusions for financial statements of entities established for defined periods.

(b) regarding Question II, some respondents explain why, applying IFRS Standards, entities should not restate comparative information. In addition, a few respondents suggest clarifications to the tentative agenda decision.

9. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

10. We have separately analysed comments related to:

(a) the Committee's analysis with respect to Question I (paragraphs 11–20);

(b) the Committee's observations with respect to Question II (paragraphs 21–26); and

(c) other matters (paragraphs 27–29).

Question I

Respondents' comments

11. A few respondents disagree with the Committee's technical analysis and conclusions on Question I for the reasons explained in the following paragraphs. The Saudi

Organization for Chartered and Professional Accountants (SOCPA) neither agrees nor disagrees with the Committee's analysis and conclusions but lists arguments for both views set out in the submission. The arguments it lists are similar to those described in the submission and were previously considered by the Committee at its February 2021 meeting (see Agenda Paper 4 from that meeting).

Going concern assessment for prior periods

12. The International Air Transport Association's Industry Accounting Working Group (IATA IAWG) says the 'plain language in [paragraph 25 of IAS 1 and paragraph 14 of IAS 10] clearly supports the conclusion in the tentative agenda decision'. However, paragraph 26 of IAS 1[3] requires an entity to assess the going concern assumption for at least 12 months from *the end of the reporting period*. Accordingly, in its view, when preparing financial statements for a prior reporting period, an entity should assess the going concern assumption for at least 12 months from the end of that prior reporting period and not 'in the present' for every reporting period. It says in the fact pattern considered by the Committee, it would be inappropriate to prepare financial statements for a prior period on a non-going concern basis when it is known that the entity continued as a going concern for the next reporting period.

13. The IATA IAWG also says:

> If all entities were required to literally apply paragraph 14 of IAS 10 then entities established for defined periods such as many structured entities related to tax structures, funds, securitizations, and leases, would meet the condition that management intends to liquidate the entity or to cease trading. Clearly this is not practice, nor was it the intent of the standard to capture these entities. The intent was to capture entities that would meet this condition during the next reporting period.

14. In contrast, the Mexican Financial Reporting Standards Board says applying IAS 10, an entity cannot prepare financial statements on a going concern basis if, before the date on which the financial statements are authorised for issue, management assesses that the going concern assumption is inappropriate.

[3] Appendix B reproduces paragraph 26 of IAS 1.

Practicality and usefulness of non-going concern basis for prior periods

15. A few respondents say preparing financial statements for prior periods on a non-going concern basis could be impractical, require undue cost or effort and/or might not provide useful information to users of financial statements. For example, the IATA IAWG says:

> … We would not see users benefitting from this information regardless of the basis of accounting due to the untimeliness and presence of more current information.
>
> Furthermore, the entity would be burdened with having to estimate liquidation values for past periods rather than use the information that was relevant to those periods where they operated as a going concern. These retrospective values may result in violations of covenants, laws, contracts and director obligations (in particular, where directors have since changed) even when those values would not have been relevant during those periods and would not have been reasonably considered.
>
> …

16. The Group of Latin American Accounting Standard Setters says some of its members suggest allowing entities not to apply the non-going concern basis of accounting retrospectively to the extent doing so would be impracticable (with appropriate disclosures).

Prevalence of fact pattern

17. A few respondents say the fact pattern described is not widespread; it is rare and unusual. David Hardidge disagrees with publishing an agenda decision for Question I for this reason and says including a technical analysis and conclusion on Question I would be inconsistent with the Committee's observations and conclusions on Question II.

Staff analysis

18. We continue to agree with the Committee's analysis and conclusions with respect to Question I. As noted in the tentative agenda decision, applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, an entity that is no longer a going concern cannot prepare

financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis. We note that:

(a) paragraph 14 of IAS 10 explicitly states ‘an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so’.

(b) paragraph 25 of IAS 1 requires management to make an assessment of an entity’s ability to continue as a going concern *when preparing* financial statements. Paragraph 26 of IAS 1 requires an entity to take into account (emphasis added) ‘*all available information about the future, which is at least*, *but is not limited to*, twelve months from the end of the reporting period’. In the fact pattern described in the agenda decision, we see no basis to limit the going concern assessment to a period of only 12 months from the end of a prior period, thereby ignoring other available information about the future.

19. We think considering (a) the practicality and usefulness of preparing financial statements for prior periods on a non-going concern basis in the fact pattern described in the agenda decision; and (b) the implications for entities established for defined periods is beyond the scope of the Committee’s discussions on this matter.

20. If the Committee decides that a standard-setting project should not be added to the work plan, it is required to publish an agenda decision explaining why[4]. The Committee reached its conclusions on Question I based on analysing the applicable principles and requirements in IFRS Standards and the agenda decision appropriately explains that analysis and conclusions.

[4] Paragraph 5.19 of the *Due Process Handbook*.

Question II

Respondents' comments

21. No respondent disagrees with the Committee's observations and conclusions with respect to Question II. However:

    (a) some respondents say applying IFRS Standards, the entity should not restate comparative information and some of these respondents explain their rationale. The Accounting Standards Board of the Institute of Chartered Accountants of India suggests clarifying in the agenda decision that an entity need not restate comparative information in this instance.

    (b) Petrobras suggests excluding from the agenda decision the Committee's observation about the prevalent practice (ie the statement 'entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis'). It says the statement could be viewed as material that explains how to apply IFRS Standards for Question II.

    (c) EY says the agenda decision could imply that an entity is required to present comparative information when preparing financial statements on a non-going concern basis and suggests clarifying in the agenda decision that IFRS Standards do not require an entity to provide comparative information in this situation. It suggests doing so by amending the description of the second question in the agenda decision as follows (new text is underlined):

        'restates <u>any</u> comparative information <u>presented</u> to reflect the basis of accounting used in preparing the current period's financial statements if it had previously prepared financial statements for the comparative period on a going concern basis (Question II)'.

    (d) a few respondents suggest requiring an entity to disclose the fact that comparative information is prepared on a different basis. SOCPA also suggests, as an alternative, prohibiting an entity from presenting comparative information if that information is prepared on a different basis.

22. David Hardidge provides some examples of financial statements prepared using a

non-going concern basis of accounting and says he did not identify any financial statements stating that they had restated comparative information.

Additional research performed

23. As explained in the February Agenda Paper, we had performed a keyword search of financial statements issued by publicly-listed IFRS reporters that prepare financial statements on a non-going concern basis. We used the financial search engine, AlphaSense, to search for entities that prepared IFRS financial statements on a non-going concern basis in the last five years. We did not identify any entity that restated comparative information to reflect the non-going concern basis of preparation.

24. We have extended this search to include financial statements published until the end of April 2021. This search did not identify any additional IFRS financial statements prepared on a non-going concern basis.

Staff analysis

25. Based on the extended research performed and a review of the comment letters, we have found no further evidence of diversity in the application of IFRS Standards in respect of Question II. We therefore continue to agree with the Committee's observations and conclusions in the tentative agenda decision on this matter.

26. Further, in our view:

    (a) the Committee's observation about prevalent practice (ie the statement 'entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis') is useful. It refers only to what entities do and does not comment on what IFRS Standards require with respect to the restatement of comparative information.

    (b) the agenda decision includes no technical analysis on Question II and, therefore, is silent on whether an entity is required (or not required) to present comparative information when preparing financial statements on a non-going concern basis. The question asked whether the entity restates comparative information thereby suggesting that the entity has included comparative information in its current period financial statements.

Other matters

Respondents' comments

27. A few respondents suggest adding a standard-setting project to the work plan to clarify the basis of preparation an entity uses when it is no longer a going concern. Ernest & Martin Associates asks specific questions regarding the preparation of financial statements on a non-going concern basis. David Hardidge explains how, in his experience, entities prepare IFRS financial statements on a non-going concern basis.

28. The Australian Accounting Standards Board says it is 'currently undertaking outreach to examine whether the current lack of guidance for the preparation of financial statements for entities that are no longer a going concern in the accounting standards is of concern to stakeholders.' It intends to publish the findings from this outreach as a Thought Leadership paper later this year and will share the paper with the International Accounting Standards Board once finalised.

Staff analysis

29. Considering the basis of preparation an entity uses when it is no longer a going concern is beyond the scope of the submitter's question. We note that the Board is seeking feedback from stakeholders on a potential project on going concern as part of its Third Agenda Consultation project (see paragraphs B35–B39 of the Request for Information *Third Agenda Consultation*).

Staff recommendation

30. Based on our analysis, we recommend finalising the agenda decision as published in IFRIC *Update* in February 2021, with no changes. If the Committee agrees with our recommendation, we will ask the Board whether it objects to the agenda decision at the first Board meeting at which it is practicable to present the agenda decision.

Question for the Committee
Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 30 of this paper?

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove '[yet]' in the second last paragraph and the square brackets in the last paragraph.

Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)

The Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*). The request asked whether such an entity:

(a) can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those periods (Question I); and

(b) restates comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously issued financial statements for the comparative period on a going concern basis (Question II).

Question I

Paragraph 25 of IAS 1 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'. Paragraph 14 of IAS 10 states that 'an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so'.

Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.

The Committee therefore concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

Question II

Based on its research, the Committee observed no diversity in the application of IFRS Standards with respect to Question II—entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis. Therefore, the Committee has not ~~[yet]~~ obtained evidence that the matter has widespread effect.

For the reasons noted above, the Committee ~~[~~decided~~]~~ not to add a standard-setting project on these matters to the work plan.

Appendix B—excerpts of IFRS Standards

B1. The following paragraphs reproduce relevant excerpts from IFRS Standards.

IAS 1 Presentation of Financial Statements

B2. Paragraphs 25–26 of IAS 1 state:

> 25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall 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. 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, the entity shall disclose those uncertainties. 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.
>
> 26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

IAS 10 Events After the Reporting Period

B3. Paragraph 14 of IAS 10 states:

> An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.