



July 2020

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# FRED 75

## Draft amendments to FRS 104 *Interim Financial Reporting*

Going concern

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## FRED 75

# Draft amendments to FRS 104 *Interim Financial Reporting*

Going concern



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## Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

### Draft amendments to FRS 104

- (ii) The FRC has become aware of an unintentional difference between the requirements for assessing and reporting on the going concern basis of accounting when preparing interim financial reports in accordance with EU-adopted IFRS and FRS 104 *Interim Financial Reporting*.
- (iii) EU-adopted IFRS requires management to assess an entity's ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial statements. Although these requirements are not contained within IAS 34 *Interim Financial Reporting*, they apply to condensed interim financial statements prepared in accordance with IAS 34.
- (iv) FRS 104 is based on the requirements of IAS 34, but does not contain any requirements that explicitly cover the assessment and reporting on the going concern basis of accounting. However, FRS 104 currently requires an entity to include a statement that the same accounting policies are applied in the interim financial statements as compared with the most recent annual financial statements, which would include any statement about the going concern basis of accounting.
- (v) This FRED proposes amendments to FRS 104 to introduce requirements covering going concern in a similar way to EU-adopted IFRS. This will help to ensure consistency between the information available to the users of interim financial reports prepared in accordance with IAS 34 and FRS 104.
- (vi) It is proposed that the amendments are effective for interim periods beginning on or after 1 January 2021, with early application permitted.

## Invitation to comment

- 1 The FRC is requesting comments on FRED 75 by 1 September 2020. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

**Question 1**

Do you agree with the proposed amendments to FRS 104? If not, why not?

**Question 2**

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

- 2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 11.

**Draft amendments to FRS 104 *Interim Financial Reporting***

## Draft amendments to FRS 104 *Interim Financial Reporting*

- 1 The following paragraphs set out the draft amendments to FRS 104 *Interim Financial Reporting* (inserted text is underlined, deleted text is struck through).
- 2 The subheading (underlined) and paragraphs 4A and 4B are inserted as follows:

### Going concern

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- 4A When preparing interim financial statements, the management of an entity applying this FRS shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. 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 date when the interim financial statements are authorised for issue.
  - 4B When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that 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 interim financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the interim financial statements and the reason why the entity is not regarded as a going concern.
- 3 Paragraph 16A(a) is amended as follows:
    - 16A (a) A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.<sup>3</sup>
  - 4 Paragraph 16A(aA) is inserted and footnote 3 is amended as follows:

16A (aA) Any material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as required by paragraph 4B.<sup>3</sup>

<sup>3</sup> It should be noted that w~~When~~ a company is subject to the UK Corporate Governance Code, it requires the board to state, in the annual and half-yearly financial statements, whether they consider it appropriate to adopt the going concern basis of accounting and to identify any material uncertainties to the company's ability to do so for a period of at least twelve months from the date of approval of the financial statements.
  - 5 In paragraph 16A(g)(iv), the term 'material' is no longer shown in bold type.
  - 6 Paragraph 56B is inserted as follows:

56B In [month 2020] amendments were made to this FRS to insert paragraphs 4A, 4B and 16(aA), and make other minor consequential amendments. These amendments are effective for interim periods beginning on or after 1 January 2021. Early application is permitted. If an entity applies these amendments to an interim period beginning before 1 January 2021 it shall disclose that fact.

## Draft amendments to Appendix I *Glossary*

- 7 The following paragraph sets out the draft amendments to Appendix I *Glossary* (inserted text is underlined).
- 8 The following glossary term is inserted in alphabetical order:

<b><u>going concern</u></b>	<u>An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.</u>
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## **Basis for Conclusions**

### **FRED 75 Draft amendments to FRS 104 Interim Financial Reporting**

*This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 75 Draft amendments to FRS 104 Interim Financial Reporting – Going concern.*

*When these proposals are finalised, the Basis for Conclusions accompanying FRS 104 will be updated.*

#### **Objective**

- 1 In developing financial reporting standards, the overriding objective of the FRC is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- 2 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:
  - (a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
  - (b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;
  - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;
  - (d) promote efficiency within groups; and
  - (e) are cost-effective to apply.

#### **Going concern**

- 3 The FRC has become aware of an unintentional difference between the requirements for assessing and reporting on the going concern basis of accounting when preparing interim financial reports in accordance with EU-adopted IFRS and FRS 104.
- 4 Paragraph 4 of IAS 1 *Presentation of Financial Statements* requires that paragraphs 15 to 35 of the standard apply to the preparation of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. This includes paragraphs 25 and 26 of IAS 1 which require management to assess an entity's ability to continue as a going concern and disclose any related material uncertainties when preparing financial statements.
- 5 FRS 104 applies to the preparation of interim financial reports and is based on the requirements of IAS 34. FRS 104 does not contain any requirements that explicitly cover the assessment and reporting on the going concern basis of accounting. However, an entity is required to state that the same accounting policies are applied as compared with the most recent annual financial statements, which would include any statement about the going concern basis of accounting.
- 6 To address this difference, it is proposed to amend FRS 104. As FRS 104 is intended for use by entities that prepare annual financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*, the proposed requirements correspond to those required by FRS 102.

- 7 The proposed amendments will result in FRS 104 containing a requirement to assess the entity's ability to continue as a going concern and report any material uncertainties, as EU-adopted IFRS does. This will help to ensure consistency between the information available to the users of interim financial reports prepared in accordance with IAS 34 and FRS 104. The FRC believes this is necessary given the importance of the going concern basis of accounting and the usefulness of information on any material uncertainties.

## Consultation stage impact assessment

### Introduction

- 1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

### Draft amendments to FRS 104

- 2 These proposals will only affect entities that prepare interim financial reports in accordance with FRS 104.
- 3 The proposals introduce an explicit requirement for management to assess an entity's ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial reports.
- 4 Paragraph 16A(a) of FRS 104 currently requires entities to include a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change. Therefore, when an entity has adopted the going concern basis of accounting in its most recent annual financial statements, its management would be required to assess the entity's ability to continue as a going concern when preparing interim financial statements, in order to state that the same accounting policies have been applied and meet the requirement of paragraph 16A(a).
- 5 Similarly, the UK Corporate Governance Code (the Code) requires the board to state, in the annual and half-yearly financial statements, whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. Therefore, directors of companies subject to the Code are required to assess the entity's ability to continue as a going concern and disclose any relevant material uncertainties in interim financial statements published half-yearly.
- 6 The proposals therefore formalise existing requirements that relate to the assessment of the going concern basis of accounting and do not impose a new requirement in this regard. For this reason, these proposed amendments will not have any effect on the cost of preparing interim financial reports.
- 7 The requirement to disclose any material uncertainties introduces a new requirement for entities that do not apply the Code. An assessment of going concern requires management to determine whether any material uncertainties relating to going concern exist. Therefore, the proposals do not introduce any additional requirements for management when making their assessment, but introduce a requirement to disclose those material uncertainties identified as part of this assessment. As information about any such uncertainties should already be available, these proposed amendments will not have a significant effect on the cost of preparing interim financial reports.
- 8 Any additional costs associated with disclosing this information would be expected to outweigh its usefulness for existing and potential investors, lenders and other creditors, as well as the wider public interest benefits of its disclosure.

### Conclusion

- 9 Overall, the FRC believes that the draft amendments to FRS 104 will have a positive impact on the relevance of information provided in interim financial reports.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

[ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Comments may also be sent in hard copy to:

Easton Bilsborough  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

Comments should be despatched so as to be received no later than 1 September 2020. If you have sent a copy of your response electronically, there is no need to send an additional hard copy.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

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