



Financial Reporting Council

October 2020

Impact Assessment and Feedback Statement

Amendments to FRS 104 *Interim Financial Reporting*

Going concern

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Amendments to FRS 104 *Interim Financial Reporting*

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Overview

- (i) In October 2020, FRS 104 *Interim Financial Reporting* was amended by *Amendments to FRS 104 – Going concern*. This Impact Assessment and Feedback Statement accompanies those amendments, which are in relation to the requirements that cover the assessment and reporting on the going concern basis of accounting when preparing interim financial reports.
- (ii) The Impact Assessment and Feedback Statement:
 - (a) sets out the Impact Assessment for these amendments, after taking account of respondents' comments on the Consultation stage impact assessment; and
 - (b) summarises the 8 responses received to FRED 75 *Draft amendments to FRS 104 – Going concern* and the FRC's response to them.

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.

Amendments to FRS 104

- 2 These amendments will only affect entities that prepare interim financial reports in accordance with FRS 104.
- 3 The amendments 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 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 requirements 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 amendments 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 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 amendments 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 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 not 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 amendments to FRS 104 will have a positive impact on the relevance of information provided in interim financial reports.

Feedback Statement

- 10 The purpose of this Feedback Statement is to summarise the comments received in response to FRED 75 *Draft amendments to FRS 104 – Going concern*. FRED 75 was issued in July 2020 and the comment period closed on 1 September 2020.
- 11 The table below shows the number of respondents and analyses them by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	6
Accounting professional bodies	1
Representative bodies of preparers	1
	<hr/>
	8
	<hr/> <hr/>

- 12 FRED 75 posed two questions, and the feedback and FRC response to them are summarised below.

Question 1

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

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	8
Disagreed	–
	<hr/>
	8
	<hr/> <hr/>

- 13 All respondents agreed with the proposals.
- 14 Three respondents suggested that the disclosures required when an entity does not adopt the going concern basis of accounting should be included in paragraph 16A of FRS 104, as well as paragraph 4B, for completeness.

FRC response

- 15 The FRC has considered the suggestion made and agrees that the requirements of paragraph 4B of FRS 104 should be fully reflected in paragraph 16A. This change was made in finalising the amendments.

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.

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	3
Disagreed	–
Did not comment ¹	5
	<hr/>
	8
	<hr/> <hr/>

- 16 Most respondents did not comment on the Consultation stage impact assessment. Of those who did, two respondents noted a possible typographical error in the conclusion of the Consultation stage impact assessment.

FRC response

- 17 The FRC expects that any additional costs of disclosing any material uncertainties relating to going concern will not outweigh the usefulness and benefits of this disclosure. This has been reflected in finalising the Impact Assessment.

¹ Includes those respondents that stated that they had no comments in relation to Question 2 and those that did not address Question 2.



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