



Consolidated financial statements: Derogations from going concern

The Italian Accounting Board, in March 2021, released the final version of the Interpretative Document No. 8 "Transitional provisions on the principles of financial statements (going concern)" referred to in Law 77/2020.

The document deals with paragraph 2 of Article 38-quater, excluding paragraph 1 referring to financial statements closed by 23 February 2020, now approved. The article in question, by introducing the option to derogate from Article 2423-bis, no. 1, of the Italian Civil Code, is aimed at companies that apply the rules of the Italian Civil Code and national accounting standards to prepare their financial statements, effectively excluding companies that adopt international accounting standards.

However, the OIC, despite the fact that the law refers only to annual financial statements, considered that it could also extend these provisions to consolidated financial statements, as it would be inconsistent for a company to prepare statutory financial statements taking advantage of the exemption and, at the same time, declare the absence of a going concern in the consolidated financial statements.

In the 2020 financial statements (closed after 23 February 2020), the exception to the going concern perspective may be applied by applying paragraphs 21 and 22 of OIC 11.

Specifically, according to paragraph 2 of Article 38-quater, in the financial statements closing on 31 December 2020, companies may apply the exception if:

- in the financial statements as at 31 December 2019, they had not availed themselves of the exemption provided for in Article 7, paragraph 2 of Law 40/2020 (provision now replaced by Article 38-quater paragraph 1) because there was continuity;
- in the financial statements as at 31 December 2019, continuity existed because the companies had availed themselves in those financial statements of the exemption provided for in the aforementioned article or in Article 38-quater which replaced it.

It is not possible to take advantage of the exemption if in the previous financial statements (generally 31 December 2019) the company stated that it was in the conditions described in paragraphs 23 or 24 of OIC 11.

Companies that decide to apply this exemption shall disclose it in number 1 of the notes to the financial statements with reference to the accounting policies adopted in the financial statements.

In the notes to the financial statements, the company shall describe any material uncertainties about its ability to continue as a going concern for a foreseeable future period of at least 12 months from the balance sheet date. In addition, information shall be disclosed about risk factors, assumptions made and uncertainties identified, and about the company's future plans to address those risks and uncertainties. In cases where no reasonable alternative to discontinuing operations is believed to exist in the relevant future time period, those circumstances and, to the extent possible and reliable, the foreseeable effects they may have on the company's financial position and performance must be described.

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