Companies and Intellectual Property Commission

a member of the dtic group

**NOTICE No. 15 of 2021**

# REQUIREMENT TO VOLUNTARILY DISCLOSE SOLVENCY AND LIQUIDITY TEST PERFORMED IN THE ANNUAL FINANCIAL STATEMENTS

## PURPOSE

The Companies and Intellectual Property Commission ("CIPC") reviews annual financial statements with the objective of monitoring compliance with the International Financial Reporting Standards (IFRS) and the Companies Act, 2008 ("Act"). CIPC is further empowered to promote the reliability of financial statements by among other things, to monitor patterns of compliance with and contravention of financial reporting standards.

**Which entities should disclose the solvency and liquidity test in their annual financial statements:**

Section 4 of the Companies Act, 71 of 2008 requires directors to perform a solvency and liquidity test when engaging in certain actions or entering into certain transactions. All the entities that during the financial year entered or performed the following transactions:

- Financial assistance for the subscription of securities. For example where the company lends money to any person for the purpose of acquiring that company's shares (section 44);
- Loans or other financial assistance to related parties, including subsidiary companies, holding companies and directors (section 45);
- Dividends declared to shareholders (section 46);
- Other distributions (as defined) to shareholders, for example writing off a debt owing to the company by its shareholders (section 46);
- Capitalization of shares, whereby the recipient can choose whether to take the shares or take cash (section 47);
- Company or subsidiary acquiring the company's shares (section 48); and/or
- Amalgamations and mergers (section 113).

## Observations

The CIPC, through its compliance monitoring activities stemming from Regulation 30(5), has observed a trend where some companies are not adhering to section 4 of the Act, the solvency and liquidity test. It was also observed during the reviews of annual financial statements that the solvency and liquidity tests were not performed consistently across all types of entities by the board of directors.