XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Board Meeting Agenda

Thursday 4 June 2020 by videoconference

Est Time	Item	Topic	Objective		Page
B: PUBLIC SESSION					
EER Assurance					
9.45 am	**3**	**EER Assurance**	(MP)		
	3.1	Cover memo	Note	Paper	
	3.2	Presentation slides	Note	Paper	
10.30 am		*Morning Tea*			
For-profit and PBE Items for Approval					
10.40 am	**4**	**Going Concern – Improving Disclosures**	(AH/JP)		
	4.1	Cover memo	Note	Paper	
	4.2	Draft ITC and ED – Proposed amendments to FRS-44	Approve	Paper	
	4.3	Draft ITC and ED – Proposed amendments to PBE IPSAS 1	Approve	Paper	
For-profit Item for Approval					
11.20 am	**5**	**Covid-19-Related Rent Concessions**	(JC)		
	5.1	Cover memo	Consider	Paper	
	5.2	*Covid-19-Related Rent Concessions*	Approve	Paper	
	5.3	Draft signing memorandum	Approve	Paper	
	5.4	Copy of joint CA ANZ and CPA Australia submission to IASB	Note	Paper	
	5.5	Memo: PBE Policy Approach	Consider	Paper	
PBE Item for Approval					
11.40 am	**6**	**Deferral of Effective Date PBE IFRS 17**	(VSF)		
	6.1	Cover memo	Note	Paper	
	6.2	Draft ITC and ED	Approve	Paper	
11.50 am		*Finish*			

Next NZASB meeting: Wednesday 17 June 2020

NZ AUDITING AND ASSURANCE STANDARDS BOARD

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	4 June 2020
Subject:	IAASB Consultation Paper-Extended External Reporting (EER) Assurance
Date:	22 May 2020

X	**Action Required**		**For Information Purposes Only**

Agenda Item Objectives

The Board is asked to CONSIDER and PROVIDE FEEDBACK as to where and how the draft International Auditing and Assurance Standards Board (IAASB) guidance on EER assurance could be improved to better serve the public interest.

Background

1. The IAASB has issued its public *consultation paper Proposed Non-Authoritative Guidance EER Assurance*. Submissions are sought by 13 July 2020.
2. This Consultation Paper has been developed under two phases, and the NZAuASB has previously commented on Phase 1 of its development in June 2019. The submission is available here.
3. The IAASB is also seeking feedback on two supplementary documents, should respondents wish to comment on their content, structure and relationship to the draft guidance document – *Supplement A: Credibility and Trust Model and Background and Contextual Information* and *Supplement B: Illustrative Examples*.
4. The IAASB has asked whether the draft guidance adequately addresses the challenges for assurance practitioners and where and how it could be improved to better serve the public interest. Although the guidance is primarily aimed at assurance practitioners, feedback is sought from preparers, users and public sector entities.
5. The areas of overlap where the guidance draws out both the preparer and assurance practitioner responsibilities are the key areas where we are seeking feedback from the NZASB. Many of these ideas address key challenges the NZASB and the NZAuASB dealt with in their respective projects on service performance information.

6. The guidance is non-authoritative and is intended to assist the practitioner apply the applicable assurance standard (ISAE 3000 (Revised)) in the context of EER assurance engagements.

Matters to consider

7. The NZASB are specifically asked to comment on Supplement A, Background and Contextual Information, as this is targeted at a broader stakeholder group, rather than at assurance practitioners.

8. Other areas identified of interest to the NZASB are briefly summarised in the attached slides together with some questions to explore including:

    a. Is the terminology and language understandable?

    b. How well do the following chapters address the challenges faced:

        i. Chapter 6: Entity's process to identify reporting topics

        ii. Chapter 3: Preconditions for assurance and scope

        iii. Chapter 4: Suitable criteria

        iv. Chapter 5: Internal Controls

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	PowerPoint: Extended External Reporting

Extended External Reporting Assurance

June NZASB meeting

Misha Pieters – Assurance standards team

Background

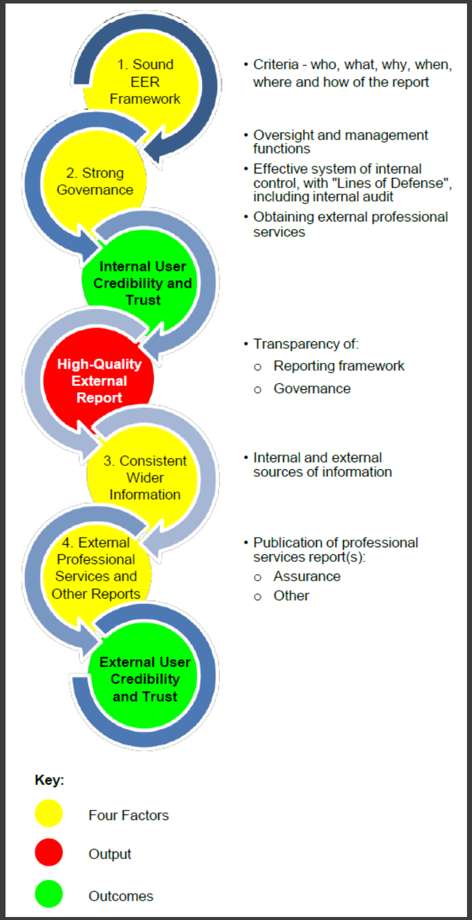
- IAASB has issued its consultation paper EER assurance
- Non authoritative guidance
  - Application of ISAE 3000 (Revised)
- Near completion
  - Focus on FATAL flaw and specific suggestions given stage of project
  - Please DO NOT identify the length of the material as an issue without a specific suggestion to address the problem

Navigation

Guidance	Supplement A	Supplement B
• 12 chapters • Behavioural aspects • Process of EER engagement • Special considerations	• Four Key Factor Model for Credibility and Trust • Background and context • Terminology and concepts	• Detailed case study examples

Supplement A

1. How credibility and trust are established
2. Background and context
   1. Underlying subject matter, criteria and subject matter information
   2. Professional judgement and professional scepticism
   3. Assertions
   4. Obtaining evidence
   5. Effective communication in the assurance report



Terminology

Subject matter

Subject matter information

Criteria

Materiality

Process to identify reporting topics

Questions

1. **Is Supplement A useful?**
2. **Is the terminology and language understandable? What improvements would you suggest?**

Process to identify reporting topics

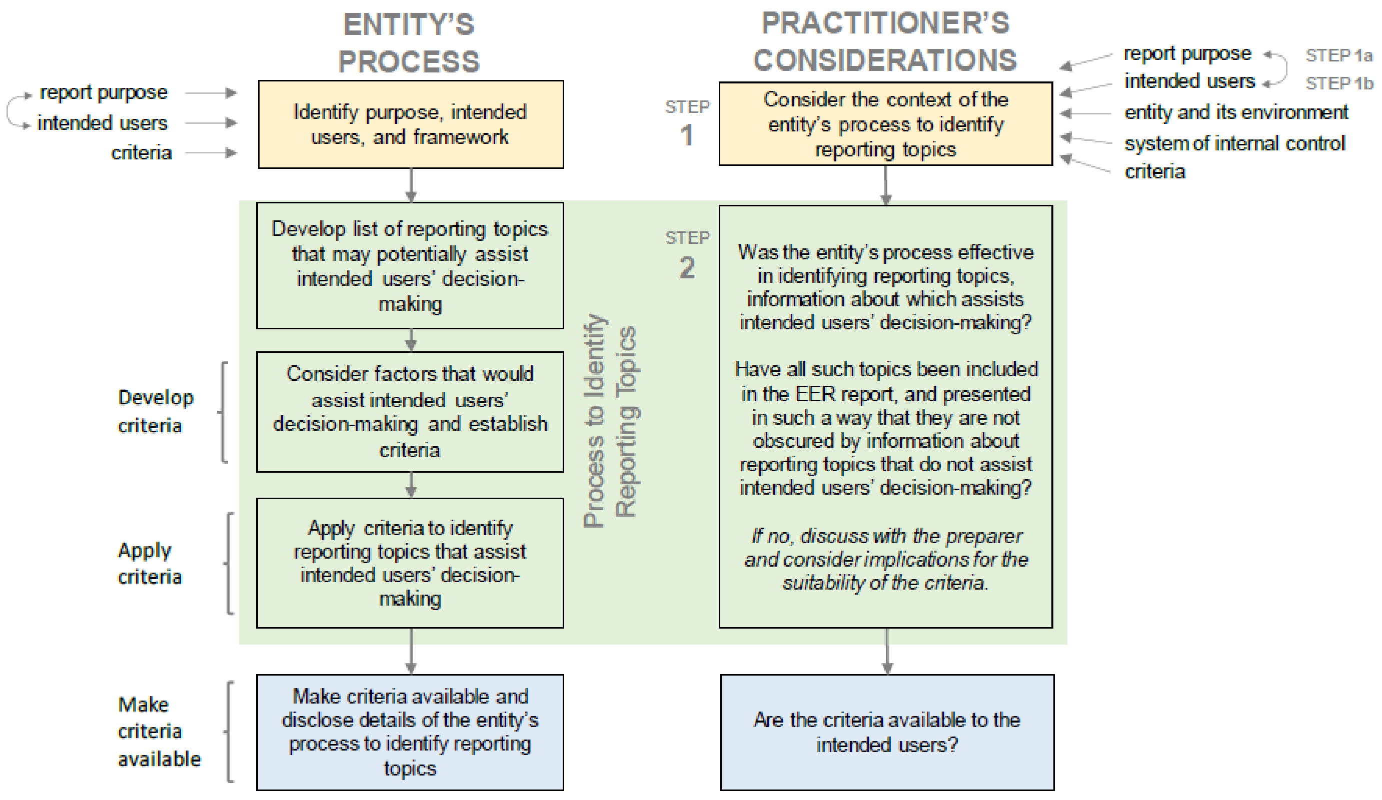


Diagram 8 – Entity's Process to Identify Reporting Topics

Specific challenges to explore

Feedback on all chapters welcome but specifically

- Entity’s process to identify reporting topics (chapter 6)
- Preconditions for assurance and scope (chapter 3)
- Suitable Criteria (chapter 4)
- Internal Controls (chapter 5)

Seeking feedback as to how well the guidance addresses these particular challenges

Process to identify reporting topics

- Decide how to make judgements about what to include in EER report
  - Preparer may need to develop criteria further
  - “Materiality process” referred to as “the entity’s process to identify reporting topics”
- Practitioner to consider the entity’s process to identify reporting topics
  - Not required to review/evaluate/conclude on the process
  - Understand process to evaluate whether the criteria are suitable
  - Practitioner may encourage preparer to disclose this process, even where not required by EER framework (para 255)

Process to identify reporting topics

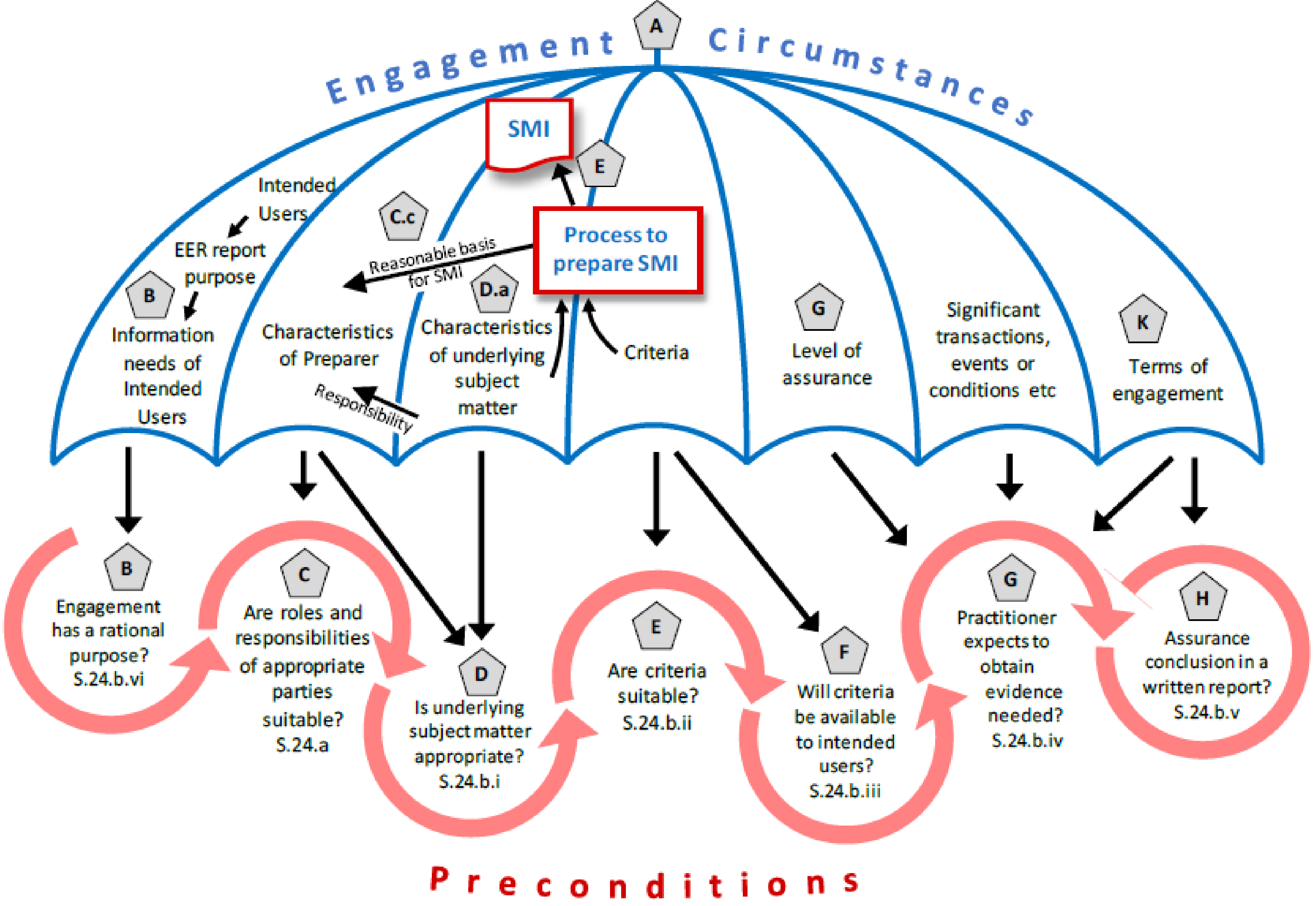
- Some EER frameworks identify who the intended users are
- Others leave this for the preparer to determine
- The practitioner considers whether the practitioner has appropriately identified the EER's intended users
- There is a difference between intended users and stakeholders
- Do not assume that just because a class of stakeholders (with a legitimate interest in a report) are not expected to use the report that their information needs are not relevant to the intended users. (para 233)

Question

How well does this chapter address the challenges faced?

Preconditions and scope

- Agreeing the scope of the assurance engagement (i.e. what is to be assured)
- Whether the scope of the EER assurance engagement proposed by the preparer meets the preconditions for assurance and is likely to be relevant to decision making of intended users
- Independence considerations
- Response when preconditions are not met



Quality Management Considerations for Practitioner Firm

Practitioner firm subject to Quality Standards - ISQC1 or equivalent? (S.31.a)

Preparer integrity not in question? ISQC.26.c

Practitioner able to comply with relevant ethical requirements? ISQC.26.b S.22.a

Practitioner has necessary competence and capabilities? ISQC.26.a, S.22.b

Diagram 5 – Acceptance and Continuance Considerations

Question

How well does this chapter address the challenges faced?

Suitable and available criteria

- Scenarios:
  - Criteria are from a single framework, without further development
  - Criteria are entirely entity developed
  - Framework criteria are supplemented by the entity
- Indications that the criteria may not be suitable
- Changes to criteria over time
- Whether and how criteria are made available to intended users
- Consequences when criteria are not suitable or available

Question

How well does this chapter address the challenges faced?

System of Internal controls (SoIC)

- SoIC comprises both governance and internal control
- SoIC sufficient to provide reasonable basis for the EER information
- Guidance focus is on practitioner’s understanding of the entity’s SoIC
  - Limited assurance
  - Reasonable assurance
- SoIC may still be developing
- Information obtained from external sources

Question

How well does this chapter address the challenges faced?

Next steps

- Submissions close **13 July 2020**
- IAASB expect to finalise guidance by end of 2020

Disclaimer

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 May 2020
To:	NZASB Members
From:	Judith Pinny
Subject:	**Improving going concern disclosures**

Purpose[1]

1. The economic impact of the COVID-19 pandemic is expected to increase the level of uncertainty over the ability of many entities to continue as a going concern for financial reporting purposes. As a result, the Board agreed in May 2020 to develop narrow-scope domestic amendments to propose improved going concern disclosures which will provide better information for users of financial statements during this period of exceptional circumstances caused by COVID-19.

2. The economic impacts of COVID-19 are expected to put added pressure on entities to provide users with relevant and useful information about:

   (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and

   (b) management's plans to address any material uncertainties around the entity's ability to continue as a going concern.

3. This agenda item explains how we propose to provide increased clarity over current going concern disclosure requirements and to align the disclosure requirements in the accounting standards with the audit disclosure expectations arising from application of the auditing standards.

Recommendation

4. Staff recommend that the Board DISCUSS, with a view to APPROVAL, the following draft Invitations to Comment (ITCs) and Exposure Drafts (EDs):

   (a) *Improving Going Concern Disclosures* (Proposed amendments to FRS-44) being agenda item 4.2; and

   (b) *Improving Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1) being agenda item 4.3.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

5. The changes from the *Proposed amendments to FRS-44* to the *Proposed amendments to PBE IPSAS 1* in this agenda item have been highlighted in grey so that Board members can easily identify the differences.

6. Staff also recommend:

   (a) a 30-day comment period, due to the urgent nature of the proposed amendments; and

   (b) a proposed effective date of accounting periods ending on or after 30 September 2020, with early application permitted.

Background

7. At the 7 May 2020 NZASB meeting the Board approved a domestic project to develop going concern disclosure requirements through amendments to:

   (a) FRS-44 *New Zealand Additional Disclosures*; and

   (b) PBE IPSAS 1 *Presentation of Financial Reports*.

8. The Board also agreed the following parameters of this project:

   (a) the going concern requirements would be developed for circumstances only when management determines that an entity continues to be a going concern, but this assessment involved significant judgement and/or the consideration of material uncertainty;

   (b) the proposed disclosures would be consistent with the requirements contained in ISA (NZ) 570 (Revised) *Going Concern* (to the extent appropriate and useful); and

   (c) the proposed disclosures would be applicable for Tier 1 and Tier 2 for-profit entities and Tier 1 and Tier 2 public benefit entities (PBEs).

9. The Board indicated that it intends to continue to seek to influence the International Boards to add a project on going concern (which could be broader than just disclosure) to their respective Work Plans.

10. Staff note that the AASB are actively following our project, but to date have not agreed to commence an equivalent domestic project.

11. We note the recent issue of the non-authoritative guidance *XRB Alert—Spotlight on Going Concern Disclosures*[2] to explain the key messages for directors and those charged with governance in relation to going concern disclosures and assurance requirements as part of the XRB's response to COVID-19. We are currently developing an equivalent *XRB Alert* on going concern disclosure considerations for PBEs.

2 https://www.xrb.govt.nz/information-hub/information-in-response-to-covid-19/implications-for-financial-reporting/

Structure of this memo

12. The remainder of this memo is organised as follows:
    (a) Consultation with advisory bodies (XRAP, TRG and NZAuASB)
    (b) Consideration of other standards
    (c) Effective date
    (d) Comment period and timeline
    (e) Current Australian position
    (f) Reduced disclosure regime
    (g) Questions for the Board
    (h) Appendix 1: Extracts from accounting and auditing standards

Consultation with Advisory Bodies

XRAP

13. The External Reporting Advisory Panel (XRAP) met on 21 May 2020 and provided feedback about proposals to improve going concern disclosures via a domestic project.

14. There were wide ranging views amongst XRAP members which included the following:
    (a) Proposed disclosures would provide a better balance between preparer and auditor responsibility for disclosure.
    (b) Is it preferable to encourage better COVID-19 disclosures rather than focus on going concern?
    (c) Disclosures about going concern could affect future conversations with the Government about climate change legislation and freshwater reforms.
    (d) Caution about introducing new requirements without sufficient education.
    (e) It is more useful to have assumptions used in preparing financial statements than multiple scenarios around things such as "when the borders will open".
    (f) Noted that there may be a large number of modified audit reports in the Charities sector.
    (g) How would additional New Zealand disclosures affect dual-listed Australian companies?

15. The issue of dual-listed companies is two pronged.
    (a) For entities complying with NZ IFRS which have a requirement to file financial statements in Australia there will be **no issues**, because the introduction of new domestic requirements in New Zealand will introduce disclosures that are in addition to those required in Australia.

(b) For entities complying with Australian Accounting Standards which have a requirement to file financial statements in New Zealand there **may be issues** because the Australian Standards will not include the new domestic requirements in New Zealand.

16. This issue is being discussed with the FMA, and we will provide a verbal update at the meeting. We do not expect the proposed new disclosure paragraphs to cause any significant concern from a trans-Tasman harmonisation perspective. This is because some aspects of the disclosures are already required by accounting standards and other aspects are indirectly required by auditing standards and the requirements for auditors to assess the adequacy of disclosures.

TRG

17. The Technical Reference Group (TRG) met on 26 May 2020 and provided feedback about proposals to improve going concern disclosures via a domestic project.

18. The TRG unanimously supported the project, noting that alignment with the auditing standards was an important factor and commending the NZASB for addressing this issue so quickly. TRG members indicate that the amendments would be appropriate for both not-for-profit and public sector entities.

19. It was suggested that staff consider whether additional changes to NZ IAS 34 *Interim Financial Reporting* were required. Staff have reviewed NZ IAS 34 and consider that the economic circumstance of the COVID-19 pandemic already falls under the disclosures required by paragraphs 15 and 16 of this standard. Staff are not proposing any amendments to NZ IAS 34 (or the equivalent PBE Standard) at this time. See Appendix 1 for details of the disclosures currently required in NZ IFRS and PBE Standards.

NZAuASB

20. The NZAuASB met on 3 June 2020 and received an agenda paper with the latest update on this project. We will provide a verbal update at the NZASB meeting on the NZAuASB's comments.

21. Staff also met with one NZAuASB member prior to the meeting who fully supported the NZASB project, specifically referencing agreement with the proposal to add a requirement to each standard as follows:

> (d) Management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, resulting in the going concern basis of accounting no longer being considered appropriate.

22. This NZAuASB member also noted that the lack of alignment between the accounting and auditing standards was endemic across the two sets of standards and suggested that a long-term project may be warranted. Staff noted the Agenda Consultations for the international accounting and auditing standard boards would probably be the best vehicle to seek this level of improvement. In addition, projects going forward would benefit from greater consultation during between the relevant accounting and auditing boards.

Consideration of other standards

23. Staff have reviewed the following standards to establish if additional amendments to other standards are required. The relevant sections from these standards are set out in Appendix 1. Staff are not proposing any amendments to standards other than NZ IAS 1 *Presentation of Financial Statements* and PBE IPSAS 1 *Presentation of Financial Reports*.

24. Standards that have been reviewed are:

NZ IFRS

(a) NZ IAS 1 *Presentation of Financial Statements*

(b) NZ IAS 10 *Events after the Reporting Period*

(c) NZ IAS 34 *Interim Financial Reporting*

(d) FRS-43 *Summary Financial Statements*

PBE Standards

(e) PBE IPSAS 1 *Presentation of Financial Reports*

(f) PBE IPSAS 14 *Events After the Reporting Date*

(g) PBE IAS 34 *Interim Financial Reporting*

(h) PBE FRS 43 *Summary Financial Statements*

Effective date

25. Although it would have been useful to have the standards issued before the June 2020 year ends, the immediate relevance of these disclosures means that we are proposing an almost immediate effective date. Usually the effective date for new standards both in New Zealand and internationally is 1 January in a subsequent year. As these proposals are intended to improve disclosures in the financial statements in response to the COVID-19 pandemic, the proposed effective date of the amendments is **accounting periods ending on or after 30 September 2020, with early adoption permitted**.

26. The reality of COVID-19 is that its economic impact will continue for some years. Indeed, entities may get through the initial shut-down and start trading again, with the help of government assistance and other funding, only to find that they can't keep going in the future. So while the project is urgent and "the sooner the better", its impact in improving disclosures will be felt well beyond the current period.

Comment period and timeline

27. If the ITCs and EDs are approved at the 4 June meeting (subject to minor amendments), staff would work **to issue them by 10 June 2020**.

28. In considering the comment period, staff note that EG A2 *Overview of the Accounting Standard-setting Process* paragraph 64 states:

> The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.

29. Staff therefore recommend a 30-day comment period as these amendments are an urgent matter to provide better information for decision making for stakeholders to assess the economic effects on entities in the COVID-19 environment. **Submissions would then be due on Friday, 10 July 2020.**

30. This submissions' due date would allow sufficient time for consideration drafting the final **standards for approval at the 13 August NZASB meeting**. The final amending standards could then be gazetted and issued on 20 August 2020. This would allow June balance date entities and entities with later balance dates to early adopt the relevant standard.

31. One option to shorten this timeframe is for the NZASB to do an additional short videoconference meeting[3] to approve the standards, say in the week of 27 July, which would mean the standards could be gazetted on 6 August 2020. However, this wouldn't extend the "net" of entities able to apply it, as it is in the same month as the timeframe outlined above.

32. Staff propose the draft timeline in the table below.

	Meeting or Event	**Date 2020**	**Achieved**
1.	NZASB: consider proposal and approve domestic projects to amend FRS-44 and PBE IPSAS 1	7 May	✓
2.	XRB Board: NZASB Chair to provide verbal update	14 May	✓
3.	XRAP: seek feedback on proposals	21 May	✓
4.	TRG: seek feedback on proposals	26 May	✓
5.	NZAuASB staff: seek feedback on proposals	May	✓
6.	NZAuASB: provide update on proposals and seek feedback	3 June	✓
7.	NZASB: half-day meeting : ITCs and draft EDs for FRS-44 and PBE IPSAS 1 for discussion and approval	4 June	
8.	Staff issue draft ITCs and EDs with consultation of 30 days – submissions due 10 July	10 June	
9.	NZASB meeting	17 June	
10.	Submissions due on amendments to FRS-44 and PBE IPSAS 1	10 July	
11.	XRB Board: NZASB Chair to provide verbal update	14 July	
12.	NZASB: consider submissions and approve final standards	13 August	
13.	Final standards issued and gazetted	20 August	

[3] Another option is for the Board to approve the standards by circular resolution requiring a two-thirds majority. This is hard to manage administratively, and so staff prefer the additional videoconference meeting alternative.

Current Australian position

33. We noted at the 7 May Board meetings that, for any proposed amendments to FRS-44, we would need to consult with the AASB about trans-Tasman harmonisation. We have liaised with AASB staff and, at this stage, it does not appear that the AASB will propose similar going concern disclosures.

34. The Australian Financial Reporting Council (FRC) at its 22 May 2020 meeting discussed their Parliamentary Joint Committee Inquiry Recommendations and AASB/AUASB COVID Action Plan, which both included management assessment of going concern.

35. The FRC noted the recent joint publication[4] by the AASB and AuASB *The Impact of COVID-19 on Going Concern and Related Assessments*. This publication provides an overview of the duties of directors and management in relation to assessment of solvency and going concern, and the impact of COVID-29 on these assessments. It also covers responsibilities to assess whether the going concern basis of preparation is appropriate and how this impacts the preparation of and disclosures in the financial statements.

Reduced disclosure regime

36. Disclosures on information in relation to management's going concern assessment will provide useful and important information for both Tier 1 and Tier 2 users. Staff therefore propose no disclosure concessions in the relation to the proposed additional disclosures.

Questions for the Board

37. Staff recommend that the Board DISCUSS, with a view to APPROVAL, the following draft Invitations to Comment (ITC) and EDs:

    (a) *Improving Going Concern Disclosures* (Proposed amendments to FRS-44) being agenda item 4.2; and

    (b) *Improving Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1) being agenda item 4.3.

38. Staff also recommend:

    (a) a 30-day comment period due to the urgent nature of the proposed amendments; and

    (b) a proposed effective date of accounting periods ending on or after 30 September 2020, with early application permitted.

[4] https://www.aasb.gov.au/admin/file/content102/c3/AASB-AUASB_TheImpactOfCOVID19_05-19.pdf

Appendix 1: Extracts from accounting and auditing standards

Back to paragraph 20

NZ IAS 1 *Presentation of Financial Statements*

Going concern	
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.

Disclosure of accounting policies	
122	**An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**

Sources of estimation uncertainty	
125	**An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:** **(a) their nature, and** **(b) their carrying amount as at the end of the reporting period.**
126	Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.
127	The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future

	resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
128	The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.
129	An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

NZ IAS 10 *Events after the Reporting Period*

Going Concern	
14	**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.**
15	Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.
16	NZ IAS 1 specifies required disclosures if: (a) the financial statements are not prepared on a going concern basis; or (b) management is aware 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 events or conditions requiring disclosure may arise after the reporting period.

NZ IAS 34 *Interim Financial Reporting*

Content of an interim financial report	
7	Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in NZ IAS 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16A) as well as those required by other Standards.

Form and content of interim financial statements	
10	**If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.**

Significant events and transactions	
15	An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.
	…
15B	The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.
	…
	(h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
	(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

Other disclosures	
16A	**In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk reports) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.**
	(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

Other disclosures
statements or, if those policies or methods have been changed, a description of the nature and effect of the change. … **(c) the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.** … **(h) events after the interim period that have not been reflected in the financial statements for the interim period.**

Materiality
… 25 While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

FRS-43 *Summary Financial Statements*

Consistency with full financial statements
15 The information in the summary financial statements shall be prepared in accordance with all measurement and recognition requirements under GAAP. Although summary financial statements need comply only with the disclosures set out under this Standard, the information presented in them shall still meet all measurement and recognition requirements that apply to full financial statements.

Single period summaries

Specific disclosures
… 21 When an entity has prepared its financial statements on the basis that the entity is not a going concern, that fact shall be disclosed.

Events occurring after the end of the reporting period
33 In respect of each non-adjusting event that occurs between the end of the reporting period and the date when the full financial statements are authorised for issue, the entity shall disclose the information required by paragraph 21 of NZ IAS 10 *Events after the Reporting Period*.
34 This Standard does not require that an entity disclose information about events occurring after the date of authorisation of the full financial statements. However, entities may be subject to other requirements for the disclosure of such events.

Comparative information	
37	Comparative information for the previous reporting period shall be shown for all items disclosed in the summary financial statements, except when such information is not disclosed in the full financial statements. An entity shall disclose sufficient narrative and descriptive comparative information to enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased.

Additional information	
35	Sufficient additional information shall be disclosed to ensure that all relevant matters are reported to the users of the summary financial statements. A summary description of each item, as included in the full financial statements, shall be given to enable its nature to be understood.
36	Examples of the additional information required to be disclosed under paragraph 35 may include information with regard to contingent assets, contingent liabilities, related party transactions, commitments, discontinued activities and the basis on which the full financial statements were prepared if a fundamental uncertainty exists. Any additional information given shall be disclosed in accordance with the financial reporting standard, if applicable, relating to the item.

Comparative information	
37	**Comparative information for the previous reporting period shall be shown for all items disclosed in the summary financial statements, except when such information is not disclosed in the full financial statements. An entity shall disclose sufficient narrative and descriptive comparative information to enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased.**

Multi-period summaries

Events occurring after the end of the reporting period	
37D	**An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraphs 33 in relation to the most recent period in the summary.**
37E	An entity shall disclose the information required by paragraph 33 in relation to other periods covered by the summary only if the events referred to in those paragraphs continue to be relevant to an understanding of the summary financial statements, taken as a whole.

Additional information	
37F	**An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraphs 35 and 36 in relation to the most recent period in the summary.**
37G	An entity shall disclose the information required by paragraphs 35 and 36 in relation to other periods covered by the summary only if the events referred to in those paragraphs continue to be relevant to an understanding of the summary financial statements, taken as a whole.

PBE IPSAS 1 *Presentation of Financial Reports*

Going concern
38. **When preparing a financial report, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their 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, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**
39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.
40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example: (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.
41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Disclosure of Accounting Policies
…
137. **An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 140), management* has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial report.** * In this context, management is the person/committee responsible for the financial report.

Key Sources of Estimation Uncertainty

140. **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

    (a) **Their nature; and**

    (b) **Their carrying amount as at the reporting date.**

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant and equipment, (b) the effect of technological obsolescence on inventories, and (c) provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective, or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year, but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of a financial report to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

    (a) The nature of the assumption or other estimation uncertainty;

    (b) The sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation, including the reasons for the sensitivity;

    (c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

    (d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

PBE IPSAS 14 *Events after the Reporting Date*

Going Concern
17. The determination of whether the going concern assumption is appropriate needs to be considered by each entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual government agency may not be a going concern because the government of which it forms part has decided to transfer all its activities to another government agency. However, this restructuring has no impact upon the assessment of going concern for the government itself.
18. **An entity shall not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date either (a) that there is an intention to liquidate the entity or to cease operating, or (b) that there is no realistic alternative but to do so.**
19. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued funding and, if necessary, potential sources of replacement funding.
20. In the case of entities whose operations are substantially funded from one source, going concern issues generally only arise if that source announces its intention to cease funding the entity.
21. Some entities may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.
22. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another entity, sold, or liquidated. Judgement is required in determining whether a change in the carrying value of assets and liabilities is required.
23. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.
24. PBE IPSAS 1 requires certain disclosures if: (a) The financial statements are not prepared on a going concern basis. PBE IPSAS 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or (b) Those responsible for the preparation of the financial statements are aware 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 events or conditions requiring disclosure may arise after the reporting date. PBE IPSAS 1 requires such uncertainties to be disclosed.

PBE IAS 34 *Interim Financial Reporting*

Content of an Interim Financial Report
…
7 Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in PBE IPSAS 1) in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard (particularly the selected note disclosures in paragraph 16A) as well as those required by other Standards.

Form and Content of Interim Financial Statements
…
10. **If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.**

Significant Events and Transactions
15. An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.
…
15B. The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.
…
(b) Recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
…
(h) Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
(i) Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
…

Other Disclosures
16A. **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, in its service performance information, or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management**

Other Disclosures
commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis. (a) **A statement that the same accounting policies and methods of computation are followed in the interim financial statements and, where relevant, service performance information, as compared with the most recent annual financial statements or service performance information, if those policies or methods have been changed, a description of the nature and effect of the change.** … (c) **The nature and amount of items affecting assets, liabilities, net assets/equity, total comprehensive revenue and expense, or cash flows that are unusual because of their nature, size, or incidence.** … (h) **Events after the interim period that have not been reflected in the financial statements or, where relevant, service performance information for the interim period.**

Materiality
… 25. While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance, and where relevant, its service performance, during the interim period.

PBE FRS 43 *Summary Financial Statements*

Consistency with Full Financial Report
12. **The information in the summary financial statements and summary service performance information shall be drawn from and be consistent with information presented in the full financial report for the relevant periods. Where information in the full financial report for periods included in the summary financial statements or summary service performance information has subsequently been restated or reclassified, the information in the summary financial statements or summary service performance information shall be drawn from, and be consistent with, that restated or reclassified information. No further restatement or reclassification is permitted**.

Single period Summaries

Specific Disclosures
21. When an entity has prepared its financial statements on the basis that the entity is not a going concern, that fact shall be disclosed.

Events Occurring After the End of the Reporting Period

33. **In respect of each non-adjusting event that occurs between the end of the reporting period and the date when the full financial statements are authorised for issue, the entity shall disclose the information required by paragraph 30 of PBE IPSAS 14 *Events after the Reporting Date*.**

34. This Standard does not require that an entity disclose information about events occurring after the date of authorisation of the full financial statements. However, entities may be subject to other requirements for the disclosure of such events.

Additional Information

35. **Sufficient additional information shall be disclosed to ensure that all relevant matters are reported to the users of the summary financial statements. A summary description of each item, as included in the full financial statements, shall be given to enable its nature to be understood**.

36. Examples of the additional information required to be disclosed under paragraph 35 may include information with regard to contingent assets, contingent liabilities, related party transactions, commitments, discontinued activities and the basis on which the full financial statements were prepared if a fundamental uncertainty exists. Any additional information given shall be disclosed in accordance with the financial reporting standard, if applicable, relating to the item.

Comparative Information

37. **Comparative information for the previous reporting period shall be shown for all items disclosed in the summary financial statements, except when such information is not disclosed in the full financial statements. An entity shall disclose sufficient narrative and descriptive comparative information to enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased.**

Multi-period Summaries

Events Occurring After the End of the Reporting Period

37D. **An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraphs 33 in relation to the most recent period in the summary**.

37E. An entity shall disclose the information required by paragraph 33 in relation to other periods covered by the summary only if the events referred to in those paragraphs continue to be relevant to an understanding of the summary financial statements, taken as a whole.

Additional Information

37F. **An entity presenting summary financial statements for multiple reporting periods shall disclose the information required by paragraphs 35 and 36 in relation to the most recent period in the summary**.

37G. An entity shall disclose the information required by paragraphs 35 and 36 in relation to other periods covered by the summary only if the events referred to in those paragraphs continue to be relevant to an understanding of the summary financial statements, taken as a whole.

ISA (NZ) 570 (Revised) *Going Concern*

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists
19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23) (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about: • Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or • Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern. Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists
20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25) A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about: • Principal events or conditions; • Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations; • Management's plans that mitigate the effect of these events or conditions; or • Significant judgements made by management as part of its assessment of the entity's ability to continue as a going concern. A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation. Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

Agenda Item 4.2

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2020-2

Improving Going Concern Disclosures (Proposed amendments to FRS-44)

(NZASB ED 2020-2)

Invitation to Comment

June 2020

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

Table of Contents

Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to comment on only those questions, or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page at: https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/.

Please include **Improving Going Concern Disclosures (Proposed amendments to FRS-44)** in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The closing date for submissions is [**10 July 2020]**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz) unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
Proposed amendments to FRS-44	NZASB ED 2020-2 *Improving Going Concern Disclosures* (Proposed amendments to FRS-44)
FRS	Financial Reporting Standard, a domestic for-profit Standard
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
NZAuASB	New Zealand Auditing and Assurance Standards Board, a sub-Board of the External Reporting Board
PBE	Public Benefit Entity

Questions for respondents

		Paragraphs
1	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.	21–22
2	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.	23
3	Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.	27
4	Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?	28
5	Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?	19–29
6	Do you have any other comments on the proposals in this ED?	19–29

1. Introduction

1.1 Purpose

1. The purpose of this ITC and associated ED is to seek comments on proposals to improve going concern disclosures, particularly when there have been material uncertainties or significant judgements. These proposals would increase the alignment of the accounting standards with the auditing standards.

2. The ED proposes amendments to FRS-44 *New Zealand Additional Disclosures.* The proposals are relevant for Tier 1 and 2 for-profit entities.

1.2 Background

3. Given the increased focus on going concern disclosures as a result of the COVID-19 pandemic, the NZASB is proposing additional going concern disclosures for both for-profit entities and PBEs. This is the ITC and ED for for-profit entities. A companion ITC and ED for PBEs is being issued at the same time.

4. The ongoing economic effects of COVID-19 are expected to have a significant impact on the going concern assessments of a large number of entities in New Zealand. Many entities will be required to apply significant judgement and/or consider the impact of material uncertainties in assessing the entity's ability to continue as a going concern.

5. Consequently, the economic impacts of COVID-19 will put added pressure on entities to provide users with relevant and useful information about:

   (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and

   (b) management's plans to mitigate the effect of any material uncertainties around the entity's ability to continue as a going concern.

6. At present there are inconsistencies between the:

   (a) going concern disclosure requirements in the accounting standards; and

   (b) the requirements, in auditing standards,for the auditor to consider the adequacy of an entity's going concern disclosures when significant judgement and/or material uncertainties were involved in the going concern assessment.

7. When assessing the adequacy of an entity's going concern disclosures, the matters that the auditor is required to consider are more detailed than the disclosures required by the accounting standards.

1.3 Current disclosure requirements in accounting and auditing standards

8. This section notes the current requirements in accounting and auditing standards. The next section outlines the proposed new disclosures in the accounting standards.

1.3.1 Accounting standards

9. Paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires any material uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to be disclosed in the financial statements.

> **Going concern**
>
> 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.

10. In addition to the above requirements dealing with going concern, the general disclosure requirements in paragraph 122 of NZ IAS 1 would also be relevant when an entity has been required to apply significant judgements to reach the view that:

    (a) there are no material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern; or

    (b) there are material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern (but ultimately the entity has determined that it should prepare its financial statements on a going concern basis) that require disclosure in accordance with paragraph 25 of NZ IAS 1.

> 122 **An entity shall disclose along with significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the progress of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**

11. Paragraph 125 of NZ IAS 1 may also be relevant if the assumptions and uncertainties considered as part of the going concern assessment also represented estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Therefore,

the application of paragraph 125 may result in entities providing useful information where an entity has applied significant judgement or there are material uncertainties related to the going concern assessment.

> **Sources of estimation uncertainty**
>
> **125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**
>
> **(a) their nature, and**
>
> **(b) their carrying amount as at the end of the reporting period.**

12. In addition, agenda decisions issued by the IFRS Interpretations Committee in response to queries about the disclosure requirements in IAS 1 may be helpful in considering the application of IAS 1.[2] These agenda decisions are shown below.

IAS 1 *Presentation of Financial Statements* (July 2010)

IAS 1 *Financial Statement Presentation* – Going concern disclosure The Committee received a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern. How an entity applies the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgement. The Committee noted that paragraph 25 requires that an entity shall disclose 'material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern'. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern.

The Committee noted that IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and that it does not expect diversity in practice. Therefore, the Committee decided not to add the issue to its agenda.

Disclosure requirements relating to assessment of going concern (IAS 1 *Presentation of Financial Statements*)—July 2014

The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments and removed this topic from its agenda.

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[2] IFRS Interpretations Committee Agenda Decisions on Going concern disclosure (IAS 1):
July 2010 https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf
July 2014 https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf

Consequently, the Interpretations Committee removed the topic from its agenda.

The staff reported the results of the IASB's discussion to the Interpretations Committee. When considering this feedback about the IASB's decision, the Interpretations Committee discussed a situation in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, reaching the conclusion that there was no material uncertainty involved significant judgement.

The Interpretations Committee observed that paragraph 122 of IAS 1 requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Interpretations Committee also observed that in the circumstance discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

1.3.2 Auditing standards

13. When applying New Zealand Auditing Standards, an auditor is required to consider the adequacy of disclosures in relation to management's assessment of going concern (see paragraphs 19 and 20 of ISA (NZ) 570 (Revised) *Going Concern*, shown below).

14. There are broadly four categories of going concern circumstances which the auditor considers when determining the adequacy of an entity's going concern disclosures:

(a)	No events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern.
(b)	Events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern – but these are not considered material uncertainties. (ISA (NZ) 570, paragraph 20)
(c)	Events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. These are considered material uncertainties, but the going concern basis of accounting is considered to remain appropriate. (ISA (NZ) 570, paragraph 19)
(d)	Management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, resulting in the going concern basis of accounting no longer being considered appropriate.

15. The current proposals focus on the shaded categories (b) and (c) which cover scenarios when an entity determines that the going concern basis of preparation should be applied, but making this assessment has involved significant judgement and/or consideration of material uncertainties. The auditing standards require

auditors to form an opinion about the adequacy of disclosures regarding the going concern assessment.

16. Paragraph 19 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern for financial reporting purposes, but material uncertainties have been identified and considered in forming this view.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists
19 If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23) (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

17. Paragraph 20 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern for financial reporting purposes and there are no material uncertainties related to this decision, but events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists
20 If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

18. In practice, auditors are required by paragraph 20 of ISA (NZ) 570 to consider the adequacy of disclosures when management has applied significant judgement in reaching the decision that there are no "material uncertainties" in relation to the entity's ability to continue as a going concern. These are described by auditors as the "close-call situations" as to whether there is a material uncertainty or not, in circumstances when events or conditions exist that may cast significant doubt on the entity's ability to continue operating as a going concern.

2. Overview of Invitation to Comment and ED

2.1 Scope of proposals

19. The proposed amendments discussed in this ITC and ED are for Tier 1 and Tier 2 for-profit entities. A companion ITC and ED for PBEs which proposes equivalent amendments to PBE Standards is being issued at the same time.

20. The current proposals are limited to:

    (a) improving going concern disclosures in circumstances when management determines that the going concern basis of preparation should be applied, but this assessment has involved significant judgement and/or the consideration of material uncertainty; and

    (b) developing going concern disclosure requirements that are consistent with the disclosure requirements in ISA (NZ) 570 to the extent this is appropriate and useful.

2.2 Summary of the proposals

21. NZASB ED 2020-2 *Improving Going Concern Disclosures* (Proposed amendments to FRS-44) proposes disclosure requirements that would improve the information provided to investors, lenders and other users of financial statements and would increase the alignment of the accounting standards with the auditing standards.

22. New paragraph 12A.1 proposes disclosures in respect of situations where management has assessed the entity as being able to continue as a going concern for financial reporting purposes, but material uncertainties have been identified and considered in forming this view.These proposed requirements are based on paragraph 19 of ISA (NZ) 570.

Question for Respondents	
Q1	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

23. New paragraph 12A.2 proposes disclosures in respect of situations where management has assessed the entity as continuing to be a going concern and there are no material uncertainties related to this decision, but events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.These proposed requirements are based on paragraph 20 of ISA (NZ) 570.

Question for Respondents
Q2 Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

2.3 Why is this a New Zealand domestic project?

24. With the ongoing economic impact of the COVID-19 pandemic increasing the probability of entities facing significant uncertainty about their ability to continue as a going concern the NZASB felt it was timely to move quickly with a narrow-scope amendment in this area to provide better information for decision making by users of financial statements.

25. In developing NZ IFRS, the NZASB adopts the requirements in IFRS Standards, and in limited circumstances, requires additional New Zealand specific disclosures.[3] Although the current economic challenges and increased focus on going concern disclosures is not a New Zealand specific issue, the NZASB considers that the matter is of sufficient importance, and users' need for information is sufficiently urgent, to propose New Zealand specific disclosures.

26. The proposals to improve disclosure requirements and better align accounting and auditing standards represent a timely response to current circumstances. The NZASB will continue to encourage international boards to consider the need for more guidance on going concern matters.

2.4 Effective date

27. Usually the effective date for new standards, both in New Zealand and internationally, is 1 January in a subsequent year. These proposals are intended to improve disclosures in the financial statements in response to the COVID-19 pandemic. Consequently, the proposed effective date of the amendments is **accounting periods ending on or after 30 September 2020, with early adoption permitted.**

Question for Respondents
Q3 Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

3 For example, audit fees.

2.5 Reduced disclosure regime

28. Disclosures on information in relation to management's going concern assessment will provide useful and important information for the users of the financial statements of both Tier 1 and Tier 2 entities. Consequently, the ED does not propose any disclosure concessions for Tier 2 entities.

Question for Respondents

Q4 Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

2.6 Timeline and next steps

29. Submissions on NZASB ED 2020-2 are due by **10 July 2020**. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

Questions for Respondents

Q5 Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?

Q6 Do you have any other comments on the ED?

NZASB EXPOSURE DRAFT 2020-2

IMPROVING GOING CONCERN DISCLOSURES (PROPOSED AMENDMENTS TO FRS-44)

Issued [Date]

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply the [draft] Standard in accordance with the effective date set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Tier 1 and Tier 2 For-profit Accounting Standard has been issued to provide better disclosures around going concern under particular circumstances. The COVID-19 pandemic in 2020 has brought economic hardship to many entities and improved going concern disclosures will assist users making decisions about these entities.

1 References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard".

ISBN:

CONTENTS

Part A – Introduction

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*.

The amendments introduce more detailed disclosures about going concern assessments to improve the information available to users about the matters considered when making such assessments.

Tier 2 for-profit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to FRS-44 *New Zealand Additional Disclosures*

Paragraphs 12A.1 and 12A.2, and a section heading, are added. Paragraph 20 is added. New text is underlined.

<u>**Going Concern Disclosures**</u>

12A.1 <u>When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. It requires an entity to prepare financial statements on a going concern basis unless management intends to liquidate or to cease trading, or has no realistic alternative but to do so. Furthermore, 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, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:</u>

<u>(a) that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;</u>

<u>(b) information about the principal events or conditions giving rise to those material uncertainties;</u>

<u>(c) information about management's plans to mitigate the effect of those events or conditions; and</u>

<u>(d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.</u>

<u>12A.2 Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity that prepares its financial statements on a going concern basis has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.</u>

…

Effective Date

…

20 <u>*Improving Going Concern Disclosures* ([Proposed] Amendments to FRS-44), issued in [date] 2020, added paragraphs 12.A1–12.A2 and the related heading. An entity shall apply those amendments for annual periods ending on or after [proposed date is 30 September 2020]. Earlier application is permitted.</u>

In the NZASB Basis for Conclusions, paragraph BC5 is added.

Improving Going Concern Disclosures

BC5 In June 2020 the NZASB issued ED 2020-2 *Improving Going Concern Disclosures* (Proposed amendments to FRS-44). The NZASB acknowledged that the COVID-19 pandemic in 2020 has resulted in significant business disruption and uncertainties for many entities and improved going concern disclosures would provide useful information to investors, lenders and other users of financial statements.

Part D – Effective Date

This Standard shall be applied for annual periods ending on or after [proposed date is 30 September 2020]. Earlier application is permitted.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2020-3

Improving Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)

(NZASB ED 2020-3)

Invitation to Comment

June 2020

PO Box 11250
Manners St Central, Wellington 6142
New Zealand
http://www.xrb.govt.nz

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to comment on only those questions, or issues that are relevant to you.

Comments should be submitted electronically using our 'Open for comment' page at: https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/.

Please include **Improving Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)** in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The closing date for submissions is [**10 July 2020]**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz) unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
Proposed amendments to PBE IPSAS 1	NZASB ED 2020-3 *Improving Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1)
FRS	Financial Reporting Standard, a domestic for-profit Standard
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
NZAuASB	New Zealand Auditing and Assurance Standards Board, a sub-Board of the External Reporting Board
PBE	Public Benefit Entity

Questions for respondents

		Paragraphs
1	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.	21–22
2	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.	23
3	Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.	27
4	Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?	28
5	Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?	19–29
6	Do you have any other comments on the proposals in this ED?	19–29

1. Introduction

1.1 Purpose

1. The purpose of this ITC and associated ED is to seek comments on proposals to improve going concern disclosures, particularly when there have been material uncertainties or significant judgements. These proposals would increase the alignment of the accounting standards with the auditing standards.

2. The ED proposes amendments to PBE IPSAS 1 *Presentation of Financial Reports*. The proposals are relevant for Tier 1 and 2 public benefit entities (PBEs).

1.2 Background

3. Given the increased focus on going concern disclosures as a result of the COVID-19 pandemic, the NZASB is proposing additional going concern disclosures for both for-profit entities and PBEs. This is the ITC and ED for the PBEs. A companion ITC and ED for for-profit entities is being issued at the same time.

4. The ongoing economic effects of COVID-19 are expected to have a significant impact on the going concern assessments of a large number of entities in New Zealand. Many entities will be required to apply significant judgement and/or consider the impact of material uncertainties in assessing the entity's ability to continue as a going concern.

5. Consequently, the economic impacts of COVID-19 will put added pressure on entities to provide users with relevant and useful information about:

   (a) significant judgements and estimates made in management's assessment of the entity's ability to continue as a going concern, along with any material uncertainties; and

   (b) management's plans to mitigate the effect of any material uncertainties around the entity's ability to continue as a going concern.

6. At present there are inconsistencies between the:

   (a) going concern disclosure requirements in the accounting standards; and

   (b) the requirements, in auditing standards, for the auditor to consider the adequacy of an entity's going concern disclosures when significant judgement and/or material uncertainties were involved in the going concern assessment.

7. When assessing the adequacy of an entity's going concern disclosures, the matters that the auditor is required to consider are more detailed than the disclosures required by the accounting standards.

1.3 Current disclosure requirements in accounting and auditing standards

8. This section notes the current requirements in accounting and auditing standards. The next section outlines the proposed new disclosures in the accounting standards.

1.3.1 Accounting standards

9. Paragraph 38 of PBE IPSAS 1 *Presentation of Financial Reports* requires any material uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern to be disclosed in the financial statements.

Going Concern

38. **When preparing a financial report, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their 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, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**

39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:

    (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and

    (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

10. In addition to the above requirements dealing with going concern, the general disclosure requirements in paragraph 137 of PBE IPSAS 1 would also be relevant when an entity has been required to apply significant judgements to reach the view that:

    (a) there are no material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern; or

    (b) there are material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern (but ultimately the entity has determined that it should prepare its financial statements on a going concern basis) that require disclosure in accordance with paragraph 38 of PBE IPSAS 1.

> **Disclosure of Accounting Policies**
>
> 137. **An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial report.**

11. Paragraph 140 of PBE IPSAS 1 may also be relevant if the assumptions and uncertainties considered as part of the going concern assessment also represented estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Therefore, the application of paragraph 140 may result in entities providing useful information where an entity has applied significant judgement or there are material uncertainties related to the going concern assessment.

> **Key Sources of Estimation Uncertainty**
>
> 140. **An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**
>
> (a) **Their nature; and**
>
> (b) **Their carrying amount as at the end of the reporting period.**

12. Given the close alignment between the disclosure requirements in NZ IAS 1 *Presentation of Financial Statements* and PBE IPSAS 1, agenda decisions issued by the IFRS Interpretations Committee in response to queries about the disclosure requirements in IAS 1 may be helpful in considering the application of PBE IPSAS 1.[2] These agenda decisions are shown below.

[2] IFRS Interpretations Committee Agenda Decisions on Going concern disclosure (IAS 1):
July 2010 https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-going-concern-disclosure-july-2010.pdf
July 2014 https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/ias-1-disclosure-requirements-relating-to-assessment-of-going-concern-jul-14.pdf

IAS 1 *Presentation of Financial Statements* (July 2010)

IAS 1 *Financial Statement Presentation* – Going concern disclosure The Committee received a request for guidance on the disclosure requirements in IAS 1 on uncertainties related to an entity's ability to continue as a going concern. How an entity applies the disclosure requirements in paragraph 25 of IAS 1 requires the exercise of professional judgement. The Committee noted that paragraph 25 requires that an entity shall disclose 'material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern'. The Committee also noted that for this disclosure to be useful it must identify that the disclosed uncertainties may cast significant doubt upon the entity's ability to continue as a going concern.

The Committee noted that IAS 1 provides sufficient guidance on the disclosure requirements on uncertainties related to an entity's ability to continue as a going concern and that it does not expect diversity in practice. Therefore, the Committee decided not to add the issue to its agenda.

Disclosure requirements relating to assessment of going concern (IAS 1 *Presentation of Financial Statements*)—July 2014

The Interpretations Committee received a submission requesting clarification about the disclosures required in relation to material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The Interpretations Committee proposed to the IASB that it should make a narrow-scope amendment to change the disclosure requirements in IAS 1 in response to this issue. At its meeting in November 2013 the IASB discussed the issue and considered amendments proposed by the staff, but decided not to proceed with these amendments and removed this topic from its agenda. Consequently, the Interpretations Committee removed the topic from its agenda.

The staff reported the results of the IASB's discussion to the Interpretations Committee. When considering this feedback about the IASB's decision, the Interpretations Committee discussed a situation in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, reaching the conclusion that there was no material uncertainty involved significant judgement.

The Interpretations Committee observed that paragraph 122 of IAS 1 requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Interpretations Committee also observed that in the circumstance discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

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14. There are broadly four categories of going concern circumstances which the auditor considers when determining the adequacy of an entity's going concern disclosures:

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(c)	Events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern. These are considered material uncertainties, but the going concern basis of accounting is considered to remain appropriate. (ISA (NZ) 570, paragraph 19)
(d)	Management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, resulting in the going concern basis of accounting no longer being considered appropriate.

15. The current proposals focus on the shaded categories (b) and (c) which cover scenarios when an entity determines that the going concern basis of preparation should be applied, but making this assessment has involved significant judgement and/or consideration of material uncertainties. The auditing standards require auditors to form an opinion about the adequacy of disclosures regarding the going concern assessment.

16. Paragraph 19 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern for financial reporting purposes, but material uncertainties have been identified and considered in forming this view.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

19 If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23)

(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

17. Paragraph 20 of ISA (NZ) 570 relates to circumstances in which management has assessed the entity as continuing to be a going concern for financial reporting purposes and there are no material uncertainties related to this decision, but events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists	
20	If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

18. In practice, auditors are required by paragraph 20 of ISA (NZ) 570 to consider the adequacy of disclosures when management has applied significant judgement in reaching the decision that there are no "material uncertainties" in relation to the entity's ability to continue as a going concern. These are described by auditors as the "close-call situations" as to whether there is a material uncertainty or not, in circumstances when events or conditions exist that may cast significant doubt on the entity's ability to continue operating as a going concern.

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    (a) improving going concern disclosures in circumstances when management determines that the going concern basis of preparation should be applied, but this assessment has involved significant judgement and/or the consideration of material uncertainty; and

    (b) developing going concern disclosure requirements that are consistent with the disclosure requirements in ISA (NZ) 570 to the extent this is appropriate and useful.

2.2 Summary of the proposals

21. NZASB ED 2020-3 *Improving Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1) proposes disclosure requirements that would improve the information provided to investors, lenders and other users of financial statements and would increase the alignment of the accounting standards with the auditing standards.

22. New paragraph 41.1 proposes disclosures in respect of situations where management has assessed the entity as being able to continue as a going concern for financial reporting purposes, but **material uncertainties** have been identified and considered in forming this view. These proposed requirements are based on paragraph 19 of ISA (NZ) 570.

Question for Respondents	
Q1	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.

23. New paragraph 41.2 proposes disclosures in respect of situations where management has assessed the entity as continuing to be a going concern and there are **no material uncertainties** related to this decision, but **events or conditions have been identified that may cast significant doubt** on the entity's ability to continue as a going concern. These proposed requirements are based on paragraph 20 of ISA (NZ) 570.

Question for Respondents	
Q2	Do you agree with the proposal to introduce new domestic disclosure requirements when the going concern assessment has led to the conclusion that there are no material uncertainties, but significant judgement has been applied in reaching that conclusion? If you disagree, please explain why.

2.3 Why is this a New Zealand domestic project?

24. With the ongoing economic impact of the COVID-19 pandemic increasing the probability of entities facing significant uncertainty about their ability to continue as a going concern the NZASB felt it was timely to move quickly with a narrow-scope amendment in this area to provide better information for decision making by users of financial statements.

25. In developing PBE Standards, the NZASB predominantly adopts the requirements in IPSAS, and in limited circumstances, requires additional New Zealand specific disclosures.[3] Although the current economic challenges and increased focus on going concern disclosures is not a New Zealand specific issue, the NZASB considers that the matter is of sufficient importance, and users' need for information is sufficiently urgent, to propose New Zealand specific disclosures.

26. The proposals to improve disclosure requirements and better align accounting and auditing standards represent a timely response to current circumstances. The NZASB will continue to encourage international boards to consider the need for more guidance on going concern matters.

2.4 Effective date

27. Usually the effective date for new standards, both in New Zealand and internationally, is 1 January in a subsequent year. These proposals are intended to improve disclosures in the financial statements in response to the COVID-19 pandemic. Consequently, the proposed effective date of the amendments is **accounting periods ending on or after 30 September 2020, with early adoption permitted.**

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[3] For example, audit fees.

Question for Respondents	
Q3	Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.

2.5 Reduced disclosure regime

28. Disclosures on information in relation to management's going concern assessment will provide useful and important information for the users of the financial reports of both Tier 1 and Tier 2 entities. Consequently, the ED does not propose any disclosure concessions for Tier 2 entities.

Question for Respondents	
Q4	Do you agree that there should be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment?

2.6 Timeline and next steps

29. Submissions on NZASB ED 2020-3 are due by **10 July 2020**. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

Questions for Respondents	
Q5	Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?
Q6	Do you have any other comments on the ED?

NZASB EXPOSURE DRAFT 2020-3

IMPROVING GOING CONCERN DISCLOSURES (PROPOSED AMENDMENTS TO PBE IPSAS 1)

Issued [Date]

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply the [draft] Standard in accordance with the effective date set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Tier 1 and Tier 2 Public Benefit Entity Accounting Standard has been issued to provide better disclosures around going concern under particular circumstances. The COVID-19 pandemic in 2020 has brought economic hardship to many entities and improved going concern disclosures will assist users making decisions about these entities.

[1] References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard".

ISBN:

CONTENTS

Part A – Introduction

This Standard sets out amendments to PBE IPSAS 1 *Presentation of Financial Reports*.

The amendments introduce more detailed disclosures about going concern assessments to improve the information available to users about the matters considered when making such assessments.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Paragraphs 41.1 and 41.2, and a section heading, are added. Paragraphs 38 to 41 are shown for context. Paragraph 154.13 is added. New text is underlined.

Going Concern

38. **When preparing a financial report, an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of the financial report. Financial reports shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial report are aware, in making their 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, those uncertainties shall be disclosed. When financial reports are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern.**

39. Financial reports are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial reports take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial report.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:

    (a) In assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern, even though they may operate for extended periods with negative net assets/equity; and

    (b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial report may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued

revenue streams, including government funding and the donation base, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Going Concern Disclosures

41.1 Paragraph 38 of this Standard requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 38 of this Standard, an entity that prepares its financial report on a going concern basis shall disclose:

(a) that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;

(b) information about the principal events or conditions giving rise to those material uncertainties;

(c) information about the plans of those responsible for governance to mitigate the effect of those events or conditions; and

(d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

41.2 Paragraph 137 of this Standard requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 140), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 140 of this Standard requires an entity to disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. To the extent not already disclosed in accordance with paragraphs 137 and 140 of this Standard, where an entity that prepares its financial statements on a going concern basis has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

…

Effective Date

…

154.13 *Improving Going Concern Disclosures* ([Proposed] Amendments to PBE IPSAS 1), issued in [date] 2020, added paragraphs 41.1–41.2 and the related heading. An entity shall apply those amendments for annual financial periods ending on or after [proposed date is 30 September 2020]. Earlier application is permitted.

In the Basis for Conclusions, paragraph BC13 is added.

Improving Going Concern Disclosures

BC13 In June 2020 the NZASB issued ED 2020-3 *Improving Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1). The NZASB acknowledged that the COVID-19 pandemic in 2020 has resulted in significant business disruption and uncertainties for many entities and improved going concern disclosures would provide useful information to investors, lenders and other users of financial reports.

Part D – Effective Date

This Standard shall be applied for annual periods ending on or after [proposed date is 30 September 2020]. Earlier application is permitted.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 May 2020
To:	NZASB Members
From:	Jamie Cattell
Subject:	***Covid-19-Related Rent Concessions***

Recommendations[1]

1. We recommend that the Board:
   (a) APPROVES for issue *Covid-19-Related Rent Concessions*, which amends NZ IFRS 16 *Leases* (NZ IFRS 16);
   (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the Standard; and
   (c) AGREES that no equivalent amendment is needed to PBE Standards.

Introduction

2. The purpose of the amendments is to provide a practical expedient to lessees applying NZ IFRS 16 during the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements.

Background

3. Please refer to the signing memorandum (agenda item 5.3, under the heading Due process) for details about the background to the amendments.

Date from which Covid-19-Related Rent Concessions becomes effective

4. The NZASB is aware that entities have already received rent concessions to which these amendments may be applied. To accommodate those entities considering earlier adoption and achieve the intended effect of the amendments, the amending Standard will need to take effect on the day of notice in the Gazette.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

5. A financial reporting standard usually takes effect on the 28th day after the date of the Gazette notice. Section 27(2) permits the XRB Board to specify that the standard takes effect on the day of notice in the Gazette if:

   (a) the Board is satisfied that it is desirable to allow this sub-section to apply because bringing the standard into effect earlier is necessary or desirable in order for one or more reporting entities or the directors of those entities to comply with the financial reporting standards issued or adopted by an international organisation; and

   (b) the Gazette notices states that section 27(2) applies; and

   (c) the directors of the reporting entity elect in writing that this subsection should apply in respect of the financial reporting standard.

6. To ensure that entities are able to apply the provisions of this amending Standard in a timely manner, the Certificate of Determination, the Approval Notice and the Gazette notice all state that the Standard takes effect from the date of the Gazette notice.

Due process

7. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2020/2 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB supplementary meeting in May 2020.[2]

8. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

9. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

RDR concessions and consistency with Australian Accounting Standards

10. The amending standard establishes new disclosure requirements where the practical expedient has been applied. We do not propose any RDR concessions in respect of the disclosure requirements as they are in response to feedback received by the IASB.

11. The Australian Accounting Standards Board (AASB) is expected to adopt the amending standard as soon as possible after it is issued by the IASB, with no disclosure concessions for Tier 2 for-profit entities. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

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[2] A summary of the IASB's May 2020 meeting is available at https://www.ifrs.org/news-and-events/updates/iasb-updates/supplementary-may-2020/

Effective date

12. The amending standard will be applicable for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 11 June 2020.

Draft amending standard and signing memorandum

13. Attached as agenda item 5.2 is a copy of *Covid-19-Related Rent Concessions*. A paragraph has been added to limit the application of the amending standard to Tier 1 and Tier 2 for-profit entities only.

14. Attached as agenda item 5.3 is a draft certificate signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Attachments

Agenda item 5.2: Draft *Covid-19-Related Rent Concessions*

Agenda item 5.3: Draft signing memorandum

Agenda item 5.4: Copy of joint CA ANZ and CPA Australia submission to IASB

Agenda item 5.5: Memo: PBE Policy Approach

Covid-19-Related Rent Concessions

Issued June 2020

This Standard was issued on 11 June 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(2) of the Financial Reporting Act 2013 takes effect on 11 June 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on an amendment to IFRS 16 *Leases* issued by the International Accounting Standards Board. The amendment to NZ IFRS 16 permits lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications.

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Part A – Introduction

This Standard sets out an amendment to NZ IFRS 16 that permits lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications. Tier 2 entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendment to NZ IFRS 16 *Leases*

Paragraphs 46A, 46B, 60A, C1A, C20A, and C20B are added. A new heading is added before C20A. For ease of reading these paragraphs have not been underlined.

Lessee

...

Measurement

...

Subsequent measurement

...

Lease modifications

...

46A As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B) is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

46B The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

(c) there is no substantive change to other terms and conditions of the lease.

...

Disclosure

...

60A If a lessee applies the practical expedient in paragraph 46A, the lessee shall disclose:

(a) that it has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient (see paragraph 2); and

(b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in paragraph 46A.

Appendix C
Effective date and transition

Effective date

...

C1A *Covid-19-Related Rent Concessions*, issued in June 2020, added paragraphs 46A, 46B, 60A, C20A and C20B. A lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 11 June 2020.

Transition

...

Covid-19-related rent concessions for lessees

C20A A lessee shall apply *Covid-19-Related Rent Concessions* (see paragraph C1A) retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

C20B In the reporting period in which a lessee first applies *Covid-19-Related Rent Concessions*, a lessee is not required to disclose the information required by paragraph 28(f) of NZ IAS 8.

Part D – Effective Date

This Standard shall be applied for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including financial statements not yet authorised for issue at 11 June 2020.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	4 June 2020
To:	Michele Embling, Chair External Reporting Board
From:	Kimberley Crook, Chair NZASB
Subject:	***Covid-19-Related Rent Concessions***

Introduction[1]

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue *Covid-19-Related Rent Concessions* which amends NZ IFRS 16 *Leases*.

2. The purpose of the amendments is to provide a practical expedient to lessees applying NZ IFRS 16 during the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements.

3. The amendments allow, as a practical expedient, a lessee to elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying NZ IFRS 16 if the change were not a lease modification.

4. The amendments also specify that the practical expedient applies only to rent concessions occurring as a direct result of the covid-19 pandemic and only if all of the following conditions are met:

   (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

   (b) any reduction in lease payments affects only the payments originally due on or before 30 June 2021; and

   (c) there is no substantive change to other terms and conditions of the lease.

Date from which Covid-19-Related Rent Concessions becomes effective

5. The NZASB is aware that entities have already received rent concessions to which these amendments may be applied. To accommodate those entities considering earlier adoption and achieve the intended effect of the amendments, the amending Standard will need to take effect on the day of notice in the Gazette.

1 This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

6. A financial reporting standard usually takes effect on the 28th day after the date of the Gazette notice. Section 27(2) permits the XRB Board to specify that the standard takes effect on the day of notice in the Gazette if:

   (a) the Board is satisfied that it is desirable to allow this sub-section to apply because bringing the standard into effect earlier is necessary or desirable in order for one or more reporting entities or the directors of those entities to comply with the financial reporting standards issued or adopted by an international organisation; and

   (b) the Gazette notices states that section 27(2) applies; and

   (c) the directors of the reporting entity elect in writing that this subsection should apply in respect of the financial reporting standard.

7. To ensure that entities are able to apply the provisions of this amending Standard in a timely manner, the Certificate of Determination, the Approval Notice and the Gazette notice all state that the Standard takes effect the date of the Gazette notice.

Due process

8. The IASB issued Exposure Draft ED/2020/2 *Covid-19-Related Rent Concessions* (ED/2020/2) in April 2020. In May 2020, the New Zealand Accounting Standards Board (NZASB) agreed not to comment on the ED. The NZASB did not receive any comment letters from New Zealand constituents. However, the NZASB received a copy of the joint comment letter from CA ANZ and CPA Australia to the IASB.

9. The IASB received 110 comment letters from its world-wide constituents.

10. Almost all respondents expressed support for the proposal in the ED to allow lessees, as a practical expedient, to elect not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, those lessees would account for those rent concessions as if they were not lease modifications.

11. Almost all respondents also expressed support for the proposals in the ED to restrict application of the practical expedient to only those rent concessions occurring as a direct result of the covid-19 pandemic and only where:

   (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; and

   (b) there is no substantive change to other terms and conditions of the lease.

12. Many respondents did however raise concerns with the proposal in the ED to limit application of the practical expedient to payments originally due in 2020. Reasons cited included:

   (a) that it is likely rent concessions directly and wholly attributable to the pandemic will result in reduced lease payments beyond 2020, with some respondents noting that they have already observed this to be the case;

   (b) applying the proposal could result in lessees accounting for similar rent concessions differently based solely on the timing of cash payments (or forgiven payments); and

(c) the proposal could result in lengthy and complex rent concession negotiations.

13. Responding to constituent feedback, the IASB finalised the proposals in the ED, with the following changes:

    (a) extend the limit of application of the practical expedient to capture covid-19-related rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021;

    (b) require a lessee applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from covid-19-related rent concessions; and

    (c) specify that in the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

14. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of ED/2020/2 and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB supplementary meeting in May 2020.[2]

15. The IASB issued *Covid-19-Related Rent Concessions* on 28 May 2020. This amending standard is applicable for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 11 June 2020.

16. The NZASB has approved *Covid-19-Related Rent Concessions*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.

17. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

18. The amending standard is a standard in its own right. *Covid-19-Related Rent Concessions* is identical to the IASB standard *Covid-19-Related Rent Concessions* except for the New Zealand specific introduction and a scope paragraph limiting the application of the standard to Tier 1 and Tier 2 for-profit entities.

19. The amending standard establishes new disclosure requirements where the practical expedient has been applied. We do not propose any RDR concessions in respect of the disclosure requirements as they are in response to feedback received by the IASB.

[2] An update on the IASB meeting in May 2020 is available at https://www.ifrs.org/news-and-events/updates/iasb-updates/supplementary-may-2020/

20. The Australian Accounting Standards Board (AASB) is expected to adopt the amending standard as soon as possible after it is issued by the IASB, with no disclosure concessions for Tier 2 for-profit entities. Therefore, the Tier 1 and Tier 2 for-profit reporting requirements will continue to be aligned with those in Australia.

21. The issue of this amending standard is consistent with all three elements of the Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia and is consistent with the New Zealand Accounting Standards Framework.

Effective date

22. The amending standard will be applicable for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 11 June 2020.

Other matters

23. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

24. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

Covid-19-Related Rent Concessions

Certificate of determination

Kimberley Crook
Chair NZASB

8 May 2020

Mr Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via website: www.ifrs.org

Dear Hans

Submission on Exposure Draft ED 2020-2 *COVID-19-Related Rent Concessions (Proposed amendment to IFRS 16)*

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft (the ED).

We appreciate the speed and willingness with which the IASB has responded to the issue of COVID-19-related rent concessions, as this presents a significant challenge for many of our stakeholders.

We support the proposed amendment which allows lessees to treat rent concessions received, as a result of the COVID-19 pandemic, as if they were not lease modifications under IFRS 16.

However, we recommend that the IASB extends the proposed scope of the relief beyond lease payments originally due in 2020. As the impact of the pandemic continues, we are aware of instances where concessions being granted now impact payments that are due in 2021. Therefore, the scope should include payment concessions for subsequent periods that are agreed to in 2020 as a direct result of COVID-19.

We also support the immediate application of this amendment once issued, the option of early adoption and the limit of its retrospective application to opening balances in the year of implementation. This combination of implementation measures will ensure that practical benefits offered by this change are available as quickly as possible and give all preparers the flexibility they need in these unusual and challenging circumstances to both manage their resources and meet the information needs of users.

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The global nature of the pandemic means that lessees will encounter a wide variety of scenarios relating to rent concessions. Therefore, we would encourage the IASB to provide educational material to support this amendment. Given the urgency, we consider that the IASB can make use of material it already has available. For example, the table of practical numerical examples provided in the IASB staff paper (Table 1, page 14) clearly illustrates the accounting for changes to leases applying the exemption under different scenarios and so would be of considerable use to preparers. It is also important that this guidance reiterates the important application principles contained in the "Basis for Conclusions" as this will assist preparers understand the Board's intentions around the scope of the amendment, a matter we discuss further in our response to Question 1 of the ED.

Our responses to the specific questions in the ED are included in the Attachment to this letter. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA Group Executive – Advocacy, Professional Standing and International Development Chartered Accountants Australia and New Zealand	**Gary Pflugrath CPA** Executive General Manager, Policy and Advocacy CPA Australia

Attachment

Specific matters for comment

Question 1—Practical expedient (paragraphs 46A and 46B of the [Draft] amendment to IFRS 16)

Paragraph 46A of the draft amendment to IFRS 16 proposes, as a practical expedient, that a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election would account for any change in lease payments resulting from the covid-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. Paragraph 46B of the draft amendment to IFRS 16 proposes that the practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) any reduction in lease payments affects only payments originally due in 2020; and
(c) there is no substantive change to other terms and conditions of the lease.

Do you agree that this practical expedient would provide lessees with practical relief while enabling them to continue providing useful information about their leases to users of financial statements? Why or why not? If you disagree with the proposal, please explain what you propose and why.

We agree that the nature of the COVID-19 pandemic and its impact on lessees is sufficiently unique and challenging to justify the provision of relief to assist in making determinations about the complex matter of:

- assessing whether rent concessions are lease modifications; and
- making the necessary adjustments to the lease liability and right-of-use asset calculations if the rent concessions meet the criteria for lease modifications.

We also agree that the election will provide preparers with some practical relief that will allow them to allocate their financial reporting resources more efficiently at this time, while still ensuring that users of financial statements are provided with clear consistent information.

As stated in our cover letter, we recommend that the IASB extends the current proposed scope of the relief beyond any reduction in lease payments originally due in 2020. We are aware of instances where rent concessions are being granted now for payments that are due in 2021 and believe that the proposed relief should be available to these payments too, provided such concessions are directly linked to COVID-19. Therefore, the scope should be extended to include reductions in lease payments that are due beyond 2020 provided that they were agreed to in 2020 in response to the COVID-19 pandemic.

We are also aware that some of the rent holidays being provided to assist with the current crisis are conditional upon the term of the lease being extended to match that of the suspended period. We note that the wording of the example in paragraph BC5(c) of the Basis for Conclusions says that "…a three-month rent holiday in 2020 followed by three additional months of substantially equivalent payments at the end of the lease would not prevent a rent concession from being within the scope of the practical expedient". Whilst we agree with this example, we are concerned that changes to the lease term may not qualify for relief as it may represent a "substantive change to the other terms and conditions of the lease", one of the proposed conditions that need to be satisfied under paragraph 46B. We support the Board's view in BC5(c) that a matched extension of the lease term should not be considered as a significant change to the lease. Therefore, we recommend that this view is clearly communicated to stakeholders implementing the standard. This may not occur if it remains in the Basis for Conclusions and so we suggest that it should either be included in the amending standard or in the implementation guidance that accompanies it. An additional example added to Table 1 addressing this circumstance would also be beneficial.

Finally, we note the term "rent concessions" suggests the relief is relevant to property leases only, although the intention clearly is to make the relief available to all types of leases. Accordingly, we suggest changing the term from "rent concessions" to "lease payment concessions".

Question 2—Effective date and transition (paragraphs C1A and C20A of the [Draft] amendment to IFRS 16)

Paragraphs C1A and C20A of the draft amendment to IFRS 16 propose that a lessee would apply the amendment:

(a) for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at the date the amendment is issued; and
(b) retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why

We agree that the unique nature of the COVID-19 pandemic and the complexity of assessing the impact of it on lessees under IFRS 16 provides sufficient justification for both:

- immediate application to financial periods beginning on or after 1 June 2020 with earlier application permitted; and

- retrospective application that is limited to adjusting opening retained earnings on initial adoption of the standard, rather than full retrospective application.

Therefore, we support the timing of the proposals in their current form.

However, we note that the proposed paragraph C1A includes a statement “Earlier application is permitted, including in financial statements not yet authorised for issue at [date the amendment is issued]”. We consider that the inclusion of the additional wording about “financial statements not yet authorised for issue” is unnecessary and should be removed. The first part of this sentence, in conjunction with the existing requirements in IAS 10 *Events after the Reporting Period* sufficiently addresses the availability of the relief for immediate application and unnecessary inconsistency in application paragraphs is unhelpful.

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 May 2020
To:	NZASB Members
From:	Jamie Cattell
Subject:	**PBE Policy Approach – Covid-19-Related Rent Concessions**

Recommendations[1]

1. The Board is asked to:

   (a) NOTE the application of the *Policy Approach to the Development of PBE Standards* (the Policy) to *Covid-19-Related Rent Concessions*; and

   (b) NOTE that no amendments are required to PBE Standards.

Background

2. *Covid-19-Related Rent Concessions* amends IFRS 16 *Leases.* The purpose of the amendments is to provide a practical expedient to lessees applying IFRS 16 during the covid-19 pandemic while enabling them to continue providing useful information about their leases to users of financial statements. This memo explains why there is no need to consider making equivalent amendments to PBE Standards.

PBE Policy Approach

3. The Policy identifies triggers for considering whether to amend PBE Standards. In this case none of these triggers apply for the following reasons:

   (a) IFRS 16 has not been used as the basis for a current IPSAS (IPSAS 13 *Leases* is based on IAS 17 *Leases*, which was superseded by IFRS 16);

   (b) the IASB has not issued an IFRS Standard on a new topic; and

   (c) there has been no change to an NZ IFRS that is used as the basis for a PBE Standard.

4. The IPSASB is currently developing an exposure draft based on IFRS 16 which it proposes to approve for issue in December 2020. The NZASB has previously agreed to wait for the IPSASB to complete its project on Leases before introducing new requirements for lease accounting in PBE Standards.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

NZ ACCOUNTING STANDARDS BOARD

Memorandum

Date:	28 May 2020
To:	NZASB Members
From:	Vanessa Sealy-Fisher
Subject:	**PBE IFRS 17 – Deferral of Effective Date**

Recommendation[1]

1. We recommend that the Board:

   (a) APPROVES for issue NZASB ED 2020-4 *PBE IFRS 17 – Deferral of Effective Date* and its accompanying Invitation to Comment; and

   (b) AGREES with the comment date of 22 July 2020.

2. We are recommending that the Board propose to defer the effective date of PBE IFRS 17 *Insurance Contracts* by one year, to align it with the expected effective date of NZ IFRS 17 *Insurance Contracts*. This memo explains why the two effective dates are not aligned. It also explains that we would like to address the difference in expected dates now, so that we can finalise both the effective date change and some other minor amendments to PBE IFRS 17 later this year.

Background

3. PBE IFRS 17 was issued in July 2019 with an effective date of 1 January 2022. PBE IFRS 17 is based on IFRS 17 *Insurance Contracts*, which was issued by the IASB in May 2017 with an effective date of 1 January 2021. PBE IFRS 17 applies to Tier 1 and Tier 2 not-for-profit public benefit entities.

4. When PBE IFRS 17 was issued, its effective date was aligned with the expected effective date of NZ IFRS 17. NZ IFRS 17 was initially issued with an effective date of 1 January 2021. In June 2019 the IASB published IASB ED/2019/4 *Amendments to IFRS 17*, which, amongst other things, proposed to defer the effective date of IFRS 17 by one year (from 1 January 2021 to 1 January 2022). As discussed below, the IASB has recently proposed to defer the effective date by one more year.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

5. In August 2019 the Board issued NZASB ED 2019-3 *Amendments to PBE IFRS 17* which proposed amendments to PBE IFRS 17 to align PBE IFRS 17 with the IASB's proposed amendments to IFRS 17.[2]

6. In response to constituents' feedback on IASB ED/2019/4, the IASB decided at its March 2020 meeting to defer the effective date of IFRS 17 by two years (that is, from 1 January 2021 to 1 January 2023).

7. We are, therefore, proposing to defer the effective date of PBE IFRS 17 by one year (that is, from 1 January 2022 to 1 January 2023). This is to align the effective date of PBE IFRS 17 with the expected effective date of IFRS 17 and NZ IFRS 17 *Insurance Contracts*.

8. The IASB plans to finalise and issue amendments to IFRS 17 in June 2020. We plan to table the equivalent amendments to NZ IFRS 17 and PBE IFRS 17 at the August Board meeting for approval.

Due process

9. We normally issue EDs with a minimum comment period of 90 days. However, a shorter comment period is permitted. As explained in EG A2 *Overview of the Accounting Standard-setting Process* (paragraph 57):

> 57 The comment period [for domestic EDs] can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or *minor matters* [emphasis added] and will never be less than 30 days.

10. We are proposing a comment period ending 22 July 2020 (approximately 48 days) as we consider that deferring the effective date of PBE IFRS 17 is a minor matter. In addition, this will enable us to seek approval of all the amendments to PBE IFRS 17, including the effective date change, at the August Board meeting.

Question for the Board
1. Does the Board agree with the staff recommendations?

Next steps

11. We will publish the ED and ITC on the XRB web page as soon as possible.

12. We will also contact the Reserve Bank and the four not-for-profit entities that are licenced insurers and notify them of the proposal in NZASB ED 2020-4.

13. All of the proposed amendments to PBE IFRS 17, including the effective date change, will be tabled for approval at the August Board meeting.

[2] The amendments proposed to PBE IFRS 17 were not identical to the IASB's proposed amendments to IFRS 17 because some of the IASB's amendments that were of an editorial nature had been incorporated into PBE IFRS 17 before it was approved in July 2019.

XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

NZASB Exposure Draft 2020-4

PBE IFRS 17[1] – Deferral of Effective Date

(NZASB ED 2020-4)

Invitation to Comment

June 2020

[1] PBE IFRS 17 *Insurance Contracts* applies to Tier 1 and Tier 2 not-for-profit public benefit entities.

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative.

Comments should be submitted electronically using our 'Open for comment' page at: https://www.xrb.govt.nz/accounting-standards/standards-in-development/open-for-comment/.

Please include *PBE IFRS 17 – Deferral of Effective Date* in the subject line and indicate whether the comments are made on your own behalf, or on behalf of a group of people, or an entity.

The closing date for submissions is **22 July 2020**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

Question for respondents

		Page
1	Do you agree with the proposal to defer the effective date of PBE IFRS 17 *Insurance Contracts* by one year (from 1 January 2022 to 1 January 2023)? If you disagree, please explain why.	5

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

1. Introduction

1.1 Proposed deferral of effective date

1. The purpose of this Invitation to Comment (ITC) and associated Exposure Draft (ED) is to seek comments on the proposal to defer the effective date of PBE IFRS 17 *Insurance Contracts* by one year (from 1 January 2022 to 1 January 2023). This is to ensure that the effective dates of PBE IFRS 17 and NZ IFRS 17 remain aligned. The proposals are relevant for Tier 1 and 2 not-for-profit public benefit entities.

2. PBE IFRS 17 was issued in July 2019 with an effective date of 1 January 2022. PBE IFRS 17 is based on IFRS 17 *Insurance Contracts*. PBE IFRS 17 applies to Tier 1 and Tier 2 not-for-profit public benefit entities.

3. When PBE IFRS 17 was issued, its effective date was aligned with the expected effective date of NZ IFRS 17. NZ IFRS 17 was initially issued with an effective date of 1 January 2021. In June 2019 the International Accounting Standards Board (IASB) proposed to defer the effective date of IFRS 17 by one year (from 1 January 2021 to 1 January 2022).[2]

4. The IASB has since indicated that it proposes to defer the effective date of IFRS 17 by two years (that is, from 1 January 2021 to 1 January 2023).

5. The NZASB is, therefore, proposing to defer the effective date of PBE IFRS 17 by one year (that is, from 1 January 2022 to 1 January 2023). This will result in the effective date of PBE IFRS 17 being the same as the effective date of IFRS 17 and NZ IFRS 17 *Insurance Contracts*.

Question for respondents

1. Do you agree with the proposal to defer the effective date of PBE IFRS 17 *Insurance Contracts* by one year (from 1 January 2022 to 1 January 2023)? If you disagree, please explain why.

1.2 Timeline and next steps

6. Submissions on NZASB ED 2020-4 are due by **22 July 2020**. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

[2] IASB ED/2019/4 *Amendments to IFRS 17* proposed a number of amendments to IFRS 17, including deferring the effective date.

NZ ACCOUNTING STANDARDS BOARD

NZASB EXPOSURE DRAFT 2020-4

PBE IFRS 17 – DEFERRAL OF EFFECTIVE DATE

Issued [Date]

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply the [draft] Standard in accordance with the effective date which is set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Tier 1 and Tier 2 PBE Standard has been issued to defer the effective date of PBE IFRS 17 *Insurance Contracts* by one year. This will result in the effective date of PBE IFRS 17 being the same as the effective date of NZ IFRS 17 *Insurance Contracts*.

1 References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

ISBN

CONTENTS

Part A – Introduction

This Standard sets out amendments to PBE IRS 17 *Insurance Contracts*. It defers the effective date by one year, from 1 January 2022 to 1 January 2023.

Tier 2 not-for-profit public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 not-for-profit public benefit entities.

Part C – Amendments to PBE IFRS 17 *Insurance Contracts*

Paragraph 132.1 is amended. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

132.1 **An entity shall apply PBE IFRS 17 for annual financial statements covering periods beginning on or after 1 January <u>2023</u>~~2022~~. If an entity applies PBE IFRS 17 earlier, it shall disclose that fact. Early application is permitted for entities that apply PBE IPSAS 41 on or before the date of initial application of PBE IFRS 17.**

In the Basis for Conclusions, a new heading and paragraphs BC9 and BC10 are added.

Deferral of Effective Date

BC9. When PBE IFRS 17 was first issued, its effective date was 1 January 2022. This was aligned with the expected effective date of NZ IFRS 17. IFRS 17 was initially issued with an expected effective date of 1 January 2021, but in June 2019 the International Accounting Standards Board (IASB) proposed to defer the effective date of IFRS 17 by one year (from 1 January 2021 to 1 January 2022). In 2020 the IASB indicated that it intended to defer the effective date of IFRS 17 by two years (from 1 January 2021 to 1 January 2023).

BC10. In June 2020 the NZASB issued ED 2020-2 *PBE IFRS 17 – Deferral of Effective Date* which proposed to defer the effective date of PBE IFRS 17 by a further year (from 1 January 2022 to 1 January 2023) to align with the new expected effective date of NZ IFRS 17. The IASB finalised its amendments to IFRS 17 in [Date] and the NZASB finalised the amendments to PBE IFRS 17 in [Date].

Part D – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after 1 January 2021. Earlier application is permitted.