

NZASB Exposure Draft 2020-3

Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)

(NZASB ED 2020-3)

Invitation to Comment

June 2020

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NZASB ED 2020-3

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 **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 **24 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 <i>Going Concern Disclosures</i> (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 more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties? If you disagree, please explain why.	26
2	Do you agree with the proposal to introduce more specific 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.	27
3	Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.	32
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?	33
5	Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?	25–34
6	Do you have any other comments on the proposals in this ED?	25–34

1. Introduction

1.1 Purpose

1. The purpose of this ITC and associated ED is to seek comments on proposals to establish more specific going concern disclosure requirements when management² is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
2. The ED proposes to introduce more specific going concern disclosure requirements with respect to these situations where management has determined that the going concern basis of preparation is appropriate and either:
 - (a) material uncertainties were considered in forming this view; or
 - (b) significant judgement was applied in forming this view.
3. These more specific disclosure requirements will help preparers of financial reports, when applying the existing disclosure requirements in the PBE Standards, to provide useful information to users of those financial reports in the circumstances described above.
4. The proposed disclosure requirements will also help align the requirements in accounting standards with the requirements in auditing standards for auditors to assess the adequacy of going concern disclosures.
5. 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

6. Given the increased focus on going concern disclosures as a result of the effects of the COVID-19 pandemic on many entities in New Zealand, the NZASB is proposing more specific going concern disclosure requirements for both PBEs and for-profit entities. This is the ITC and ED for PBEs. A similar ITC and ED for for-profit entities is being issued at the same time.
7. The 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, both now, and for some time in the future. Many entities will need to apply significant judgement and/or consider the impact of material uncertainties in assessing the entity's ability to continue as a going concern.
8. Consequently, the proposals seek to address the increased need of resource providers and other users of financial reports for relevant and transparent 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.

² In this context, management is the person/committee responsible for the financial report.

9. Establishing more specific disclosure requirements will also help preparers of financial reports when considering how to provide relevant and transparent information to resource providers and other users of their financial reports in these circumstances.
10. In addition, the proposals will help align the requirements in accounting standards with the requirements in auditing standards. At present the going concern disclosure requirements in accounting standards are not as specific as 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.
11. While the key driver for these proposals was to respond to the increased uncertainty arising from the economic effects of COVID-19, the benefits of providing greater specificity in going concern disclosure requirements, as outlined above, are expected to endure over the long term.

1.3 Current disclosure requirements in accounting and auditing standards

12. This section notes the current requirements in accounting and auditing standards. The next section outlines the proposal to establish more specific disclosure requirements in the accounting standards.

1.3.1 Accounting standards

13. 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 report.

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.

14. 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 may 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 may 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 reports 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.**

* In this context, management is the person/committee responsible for the financial report.

15. 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.**

16. 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 1.³ 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. 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.

³ 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>

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

17. 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.
18. There are broadly four categories of going concern circumstances which the auditor considers when determining the adequacy of an entity's going concern disclosures:

- | |
|---|
| <ol style="list-style-type: none"> (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. |
|---|

19. 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.
20. Paragraph 19 of ISA (NZ) 570 (Revised) relates to circumstances in which management has assessed that the going concern basis of preparation should be applied, 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

- | |
|---|
| <p>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)</p> <ol style="list-style-type: none"> (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.

21. Paragraph 20 of ISA (NZ) 570 (Revised) relates to circumstances in which management has assessed that the going concern basis of preparation should be applied 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.

22. In practice, auditors are required by paragraph 20 of ISA (NZ) 570 (Revised) 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

23. The proposed amendments discussed in this ITC and ED are for Tier 1 and Tier 2 PBEs. A similar ITC and ED for for-profit entities which proposes equivalent amendments to FRS-44 *New Zealand Additional Disclosures* is being issued at the same time.
24. The current proposals are limited to:
- (a) more specific going concern disclosure requirements 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) going concern disclosure requirements that are consistent with the disclosure requirements in ISA (NZ) 570 (Revised) to the extent this is appropriate and useful.

2.2 Summary of the proposals

25. NZASB ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1) proposes to establish more specific going concern disclosure requirements.

26. New paragraph 41.1 proposes disclosures in respect of situations where management has assessed that the entity basis of preparation should be applied, but material uncertainties were considered in forming this view. These proposed requirements are based on paragraph 19 of ISA (NZ) 570 (Revised).

Question for Respondents

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

27. New paragraph 41.2 proposes disclosures in respect of situations where management has assessed that the going concern basis of preparation should be applied 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 (Revised).

Question for Respondents

Q2 Do you agree with the proposal to introduce more specific 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?

28. The 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. Consequently, the NZASB felt it was timely to propose narrow-scope amendments to provide more specific going concern disclosure requirements for the reasons outlined earlier.
29. In developing PBE Standards, the NZASB predominantly adopts the disclosure requirements in IPSAS Standards, and in limited circumstances, requires additional New Zealand specific disclosures.⁴ 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.
30. The proposals to establish more specific going concern disclosure requirements and better align accounting and auditing standards represent a timely response to current circumstances. They are also expected to provide enduring benefits over the long term.
31. The NZASB will continue to encourage international boards to consider the need for more guidance on going concern matters.

⁴ For example, audit fee disclosures.

2.4 Effective date

32. Usually the effective date for new standards, both in New Zealand and internationally, is 1 January in a subsequent year. Because these proposals would respond to an immediate need for more specific disclosure requirements 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.

2.5 Reduced disclosure regime

33. 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

34. Submissions on NZASB ED 2020-3 are due by **24 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?



NZ ACCOUNTING
STANDARDS
BOARD

NZASB EXPOSURE DRAFT 2020-3

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 establish more specific going concern disclosure requirements when material uncertainties exist or significant judgements were made when assessing the appropriateness of applying the going concern basis of preparation. The more specific disclosure requirements will assist preparers of financial reports to provide relevant and transparent information to users of financial reports in these circumstances, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

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

GOING CONCERN DISCLOSURES

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GOING CONCERN DISCLOSURES

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Part A – Introduction

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

The amendments introduce more specific disclosures about going concern assessments to help preparers of financial reports to provide relevant and transparent information to users of those financial reports 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 intends 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

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 are one or more material uncertainties 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 reports. 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 prepares its financial report on a going concern basis, and those responsible for the preparation of financial reports are aware of 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.

* In this context, management is the person/committee responsible for the financial report.

...

Effective Date

...

154.13 *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.

Going Concern Disclosures

BC13 In June 2020 the NZASB issued ED 2020-3 *Going Concern Disclosures* (Proposed amendments to PBE IPSAS 1). The NZASB noted that the COVID-19 pandemic in 2020 resulted in significant disruption and uncertainties for many entities and led to an increased interest in going concern disclosures. The NZASB was of the view that more specific going concern disclosure requirements would help preparers of financial reports when applying existing disclosure requirements to provide relevant and transparent information to resource providers and other users of financial reports in these circumstances, both in the current environment and in the future.

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.