

21 July 2020

Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142

Dear Madam

**NZASB Invitation to Comment on NZASB Exposure Draft 2020-2 (ED 2020-2) and NZASB Exposure Draft 2020-3 (ED 2020-3)**

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *Exposure Drafts NZASB 2020-2: Going Concern Disclosures (Proposed amendments to FRS-44)* and *NZASB Exposure Draft 2020-3 Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)*. We are encouraged by the NZASB's work to help preparers provide useful information to users and align the requirements in accounting standards with the requirements in auditing standards.

We believe that the more specific disclosure requirements contained in the proposed amendments will improve consistency of the disclosures for both public benefit entities and those in the for-profit sector. We believe ED 2020-2 could be improved to facilitate even greater alignment.

We have responded to your specific questions in the appendix attached.

Please do not hesitate to contact us should you have any queries. We also would be happy to meet with you to discuss our comments further.

Yours faithfully  
Ernst & Young Limited



Simon O'Connor  
Managing Partner

## Appendix A - Response to specific ITC questions

***Question 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.***

We support the NZASB's proposal to amend FRS 44 and PBE IPSAS 1 to introduce more specific disclosure requirements when an entity's going concern assessment has involved the consideration of material uncertainties. We believe users of the financial statements will benefit from the increased disclosures and the resulting increase in comparability of the financial statements. Information regarding the events or conditions giving rise to the material uncertainty and how an entity plans to mitigate the effect of those uncertainties will provide useful information to readers.

Disclosing that a material uncertainty could result in the entity being unable to realise assets and discharge its liabilities in the normal course of business will highlight the significance of the existence of the material uncertainty to the reader. We believe it will be important for entities to apply the requirements in FRS 44 para 12A.1 and PBE IPSAS 1 para 41.1 only when it is clear there are material uncertainties. Therefore, distinguishing between when an uncertainty is material and when an uncertainty is not material, but required significant judgement to reach that conclusion, may be difficult. The inclusion of an example, highlighting how an event or condition can require significant judgement, but is not a material uncertainty would be useful. Any examples could consider highlighting the likelihood of an event or condition occurring and the significance of the event.

We support the alignment of the requirements in accounting standards with the requirements in auditing standards for auditors to assess the adequacy of going concern disclosures. Given it is those charged with governance who are ultimately responsible for providing reliable and relevant information in the financial statements, aligning auditing requirements with NZ IFRS and PBE Standards requirements removes ambiguity around what must be disclosed.

We believe the proposed ED 2020-2 could be improved by prescribing the specific minimum period in the future to be considered when making the going concern assessment. PBE IPSAS 1 and the auditing standards require that the period to be considered when making the assessment as to an entity's ability to continue as a going concern is at least 12 months following the approval of the financial statements. However, NZ IAS 1 refers to the period 12 months following the end of the reporting period. NZ IAS 10 refers to the requirement to continuously assess the going concern assumption up until the date of authorisation of the financial statements, but it doesn't make it clear that this requires consideration of at least 12 months from the date of authorisation of the financial statements. We see no specific reason for a difference between for-profit and PBE standards for financial reporting. As such, NZASB may consider clarifying the requirement that this period is at least 12 months following the date the financial statements are authorised for issue.

***Question 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.***

We agree with the proposals. The ability of an entity to continue as a going concern is a fundamental assumption in preparing financial statements. Where this assessment requires significant judgement, it is important that users of the financial statements are aware of this fact. It is also important that users understand management's rationale in reaching the conclusion that no material uncertainty exists. These additional details may provide useful input to inform the thinking of the users. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support the appropriate disclosure.

As noted above, we believe it could be difficult to distinguish between when there is a material uncertainty and when there is no material uncertainty, but that significant judgement was required, and thus believe an example should be included.

**Question 3. Do you agree with the proposed effective date of the amendments? If you disagree, please explain why.**

Yes, we agree with the proposed effective date. While it is generally appropriate to provide entities with longer period to incorporate the requirements of an amendment in their financial reporting, the current environment calls for a more immediate effective date. Currently, many entities in both for-profit and PBE sectors are facing significant challenges and uncertainty. As such, the proposed amendments are expected to be relevant to entities and the users of their financial statements.

**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?**

We agree there should be no disclosure concessions for Tier 2 entities. As noted above, we believe the entity's ability to continue as a going concern is a fundamental assumption when preparing the financial statements. As such, we believe the proposed disclosures would be useful to users irrespective of size and public accountability of the entity and that the cost of providing these disclosures would not outweigh such benefits.

**Question 5 Are there any other issues in relation to going concern disclosures that you would like to be considered in the future?**

We do not have any further comments.

**Question 6. Do you have any other comments on the Exposure Draft(s)?**

We note that the amendments to PBE IPSAS 1 include a footnote reference that the term 'management' is referring to the person / committee responsible for the financial statements. There is no similar reference in the FRS 44 amendments that refer to management assessing the entities ability to continue as a going concern. Any considerations made regarding going concern should ultimately rest with those charged with governance that have responsibility for the financial statements. Therefore, we believe the reference to 'management' should be clear that it relates to those responsible for the financial statements, in most cases being those charged with governance.

Otherwise, we do not have any further comments.