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Barrister

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Ms Judith Pinney
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By email: judith.pinney@xrb.govt.nz

GOING CONCERN DISCLOSURES (PROPOSED AMENDMENTS TO FRS-44) – INVITATION TO COMMENT

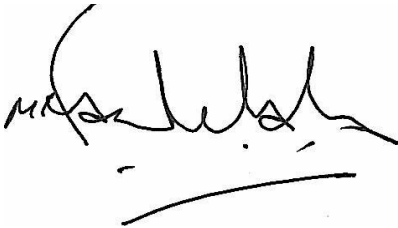
1. Further to your email of 7 July 2020 I write to make some brief comments in relation to the proposed amendments to FRS-44 as set out in your Invitation to Comment of June 2020 (ITC). I make these comments in my personal capacity. I limit my comments to the aspects set out below rather than making a detailed submission on the whole ITC and the various questions set out in it.
2. In this context:
 - (a) I support the proposals in relation to their general intention and proposed effect. I believe the proposals are an important step in addressing the “expectation gap” between what readers, investors and the public generally may or do expect from audited financial statements on the one hand, and the technical objectives and expectations of financial reporting and auditing standards on the other.
 - (b) I also consider the proposals are a valuable move towards some general consistency between the going concern aspects of financial reporting, the continuous disclosure requirements under financial markets regulation, and the solvency test under companies legislation.
 - (c) In relation to the current position with FRS-44 and the relevant ISAs, the ITC in my view sets out a good case for harmonising the two, and mitigating the difficulties in distinguishing between paragraphs 19 and 20 of ISA(NZ)570 (Revised), highlighted in particular as two of the four broad categories set out in (b) and (c) of paragraph 18 of the ITC.
 - (d) To me, looking at the wording of those two categories (b) and (c), the differences between events or conditions identified that may cast

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significant doubt on the entity's ability to continue as a going concern which are not considered "material uncertainties", and those which are, necessarily involve interpretations, guidance and judgement calls which are inherently problematic. There may well be a case, although it would need to be further considered, for collapsing these two categories into one, with different wording.

- (e) On the basis, however, that these two categories do continue, I agree that it is too drastic a consequence that matters which are judged to come into category (b) do not require to be disclosed on a similar basis to those matters which come into category (c), particularly given the difficulties in interpretation and the necessary judgement calls which have to be made in assessing which category applies.
 - (f) In my view it is desirable and preferable that if an entity's circumstances fall into either category there be identification and discussion of that in the material. If the board of an entity and the auditors take a different view as between themselves on those questions, so be it, and that itself should be a relevant matter for readers of the financial statements to have available to them, rather than a "negotiated" outcome or one which does not appropriately represent the realities of the situation.
3. Thank you for the invitation to comment. I will be pleased to enlarge on any of these comments if this would assist.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M R H Webb', with a horizontal line underneath.

M R H WEBB