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April Mackenzie
Chief Executive
External Reporting Board
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Dear April

Exposure Drafts: NZASB ED 2020-2 Going Concern Disclosures (Proposed amendments to FRS 44) and NZASB ED 2020-3 Going Concern Disclosures (Proposed amendments to PBE IPSAS 1)

We appreciate the opportunity to comment on the New Zealand Accounting Standard Board's (the Board) Exposure Drafts (EDs) relating to going concern disclosures for for-profit entities and Public Benefit Entities (PBEs).

Our comments in this letter apply equally to both EDs as the going concern assumption is relevant to preparation of financial statements under both NZ IFRS and PBE Standards and we expect consistent disclosures for both for-profit entities and PBEs. We elected to use for-profit related terminologies in this letter for the reader's convenience.

We recognise that the aim of the EDs is to establish more specific going concern disclosure requirements to be applied when material uncertainties exist, or when significant judgements are made when assessing the appropriateness of applying the going concern basis of preparation, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

Overall, we support the Board's intent to provide more specific disclosure requirements as it will assist preparers of financial statements to provide relevant and transparent information to users of financial statements when material uncertainties exist, or significant judgements are made regarding the going concern assessment. Furthermore, the proposed disclosure requirements will also help the auditors in assessing the adequacy of going concern disclosures.

Notwithstanding our overall support for the Board's intentions behind these EDs, we have noted some comments in the **Appendix 1**. In summary, we suggest the Board considers the following comments:

- Include a specific requirement to disclose the significant judgements and assumptions when there is a material uncertainty.
- Clarify the applicability of FRS 44.12A.2 as to whether it will apply to both material uncertainties and 'close-call' situations.
- Include more specific disclosure requirements in respect of 'close-call' situations. Specifically, consider adding the following:
 - Details of events or conditions that may cast significant doubt about an entity's ability to continue as a going concern and the management's evaluation of their significance in relation to the going concern assessment;
 - Management's plans to mitigate the effect of those events or conditions; and
 - Significant judgements and assumptions made by management in its going concern assessment, including its determination of whether there are material uncertainties.

Please don't hesitate to contact me at dahealey@kpmg.co.nz if you wish to discuss any of the comments provided in this letter.

Kind regards,

Darby Healey
Partner

Appendix 1

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 Board's proposals to introduce more specific disclosure requirements when the going concern assessment has involved the consideration of material uncertainties as this will align the disclosure requirements under the accounting and the auditing standards. However, we believe that the EDs should include additional specific disclosure requirements on certain aspects to help preparers provide more useful and meaningful information in the financial statements. We have noted the following comments for the Board to consider in finalising the proposed disclosures under FRS 44.12A.1 and 12A.2:

- 1) The specific disclosure requirements under point (a) to (d) under FRS 44.12A.1 align with the requirements under paragraph 20 of ISA (NZ) 570 (Revised) *Going Concern*. However, there are no specific requirements to disclose the following:
 - a) Management's evaluation of the significance of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
 - b) Significant judgements and assumptions made by management in their going concern assessment including their determination of whether there are material uncertainties.

We believe that it is important to include the above-mentioned specific disclosure requirements as it will help the preparers of financial statements to disclose all the facts regarding the going concern assessment. The proposed disclosure requirements in the EDs along with our suggested additions will help the users of the financial statements understand the following:

- a) The nature of events or conditions that may cast significant doubt upon the entity's ability to make the going concern;
- b) Management's evaluation of the significance of such events or conditions on the entity's business
- c) Management's plans to mitigate the adversity expected to be caused by such events or conditions
- d) Any significant judgements and assumptions involved in determining why the material uncertainty remains and why the going concern assumption is still appropriate.

We have included the proposed wording in **Appendix 2** that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.

- 2) It is not clear to us whether the Board intended to propose the disclosure requirements in FRS 44.12A.2 for 'close-call' situations only or in respect of both material uncertainties and 'close-call' situations. The ambiguity stems from the wording in paragraphs 14 and 27 of the Invitation to Comment - paragraph 27 states that FRS 44.12A.2 intends to cover only 'close-call' situations, while paragraph 14 notes that the general disclosure requirements of NZ IAS 1.122 apply when significant judgement is applied to both material uncertainties and 'close-call' situations.

We acknowledge that the current requirements under NZ IAS 1.122 require an entity to disclose all the significant judgements applied in preparation of the financial statements. However, we believe that by not stating all the specific disclosure requirements under FRS 44.12A.1, the EDs may fail to achieve their overall objective, i.e., to provide more specific disclosure requirements around material uncertainties and 'close-call' situations.

Therefore, we believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and 'close-call' situations.

- 3) We have also noted that Australian Accounting Standard Board and Auditing and Assurance Standard Board have issued a joint publication in May 2020 which addresses the impact of COVID-19 on going concern and related assessments ([Click here for the Joint Publication](#)). Pages 17 and 18 of the joint publication provides suggested disclosure items under the different scenarios of the going concern assessment. We suggest the Board considers including similar items either under FRS 44 and PBE IPSAS 1 or in a guidance note which supplements the proposed disclosure requirements under the EDs. That may help the preparers of financial statements to understand the practical application of the proposed disclosure requirements in the EDs.

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 support the Board's intention to introduce more specific disclosure requirements in the 'close-call' situations. However, we believe that the proposed disclosure requirements under FRS 44.12A.2 may not achieve the objective of the EDs.

FRS 44.12A.2 does not require the preparers to disclose any specific detailed information around 'close-call' situations (e.g., details of events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern or management's assessment or plans to mitigate the adverse impact of such events or conditions). Instead, FRS 44.12A.2 refers only to the existing disclosure requirements as required under the paragraphs 122 and 125 of NZ IAS 1.

In our view, it is equally important to provide specific disclosures in 'close-call' situations. Enhanced disclosure will assist the preparers of financial statements to provide relevant and transparent information to users of the financial statements in these situations as well. We suggest the Board considers including the following specific disclosure requirements in the 'close-call' situations:

- a) Details events or conditions that may cast significant doubt about entity's ability to continue as a going concern and the management's evaluation of their significance in relation to the going concern assessment;
- b) Management's plan to mitigate the effect of these events or conditions; and
- c) Significant judgements and assumptions made by the management in its going concern assessment.

We also believe that the significant judgements (NZ IAS 1.122) and assumptions (NZ IAS 1.125) considered in the going concern assessment should be disclosed for both material uncertainties and 'close-call' situations – see comments under Question 1.

We have included the proposed wording in **Appendix 2** that the Board may consider using in place of the current FRS 44.12A.1 and 12A.2 wording.

Question 3

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

We support the Board's proposed effective date of the amendments.

Question 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?

We support the Board's proposal that there should not be no disclosure concessions for Tier 2 entities due to the pervasive nature of the going concern assessment.

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 other issues in relation to going concern disclosures for the Board's considerations. However, we will continue to assess the situation and will share our suggestions (if any) to the Board in the future.

Question 6

Do you have any other comments on the proposals in this ED?

We do not have any other comments on the proposals in the EDs.

Appendix 2: Proposed wording for FRS 44.12A.1 and 12A.2

- 12A.1 *An entity shall disclose the following information either when material uncertainties are considered in the going concern assessment or when no material uncertainties exist but reaching that conclusion involved significant judgement:*
- details of events or conditions that may cast significant doubt about entity’s ability to continue as a going concern and management’s evaluation of their significance in relation to the going concern assessment;*
 - management’s plans to mitigate the effect of these events or conditions; and*
 - significant judgements and assumptions made by management in their going concern assessment, including their determination of whether there are material uncertainties.*
- 12A.2 *If a material uncertainty exists in relation to the going concern assessment, an entity shall explicitly state that there is a material uncertainty related to events or conditions that may cast significant doubt upon 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.*