Applying IFRS

IFRS accounting considerations of the Coronavirus pandemic

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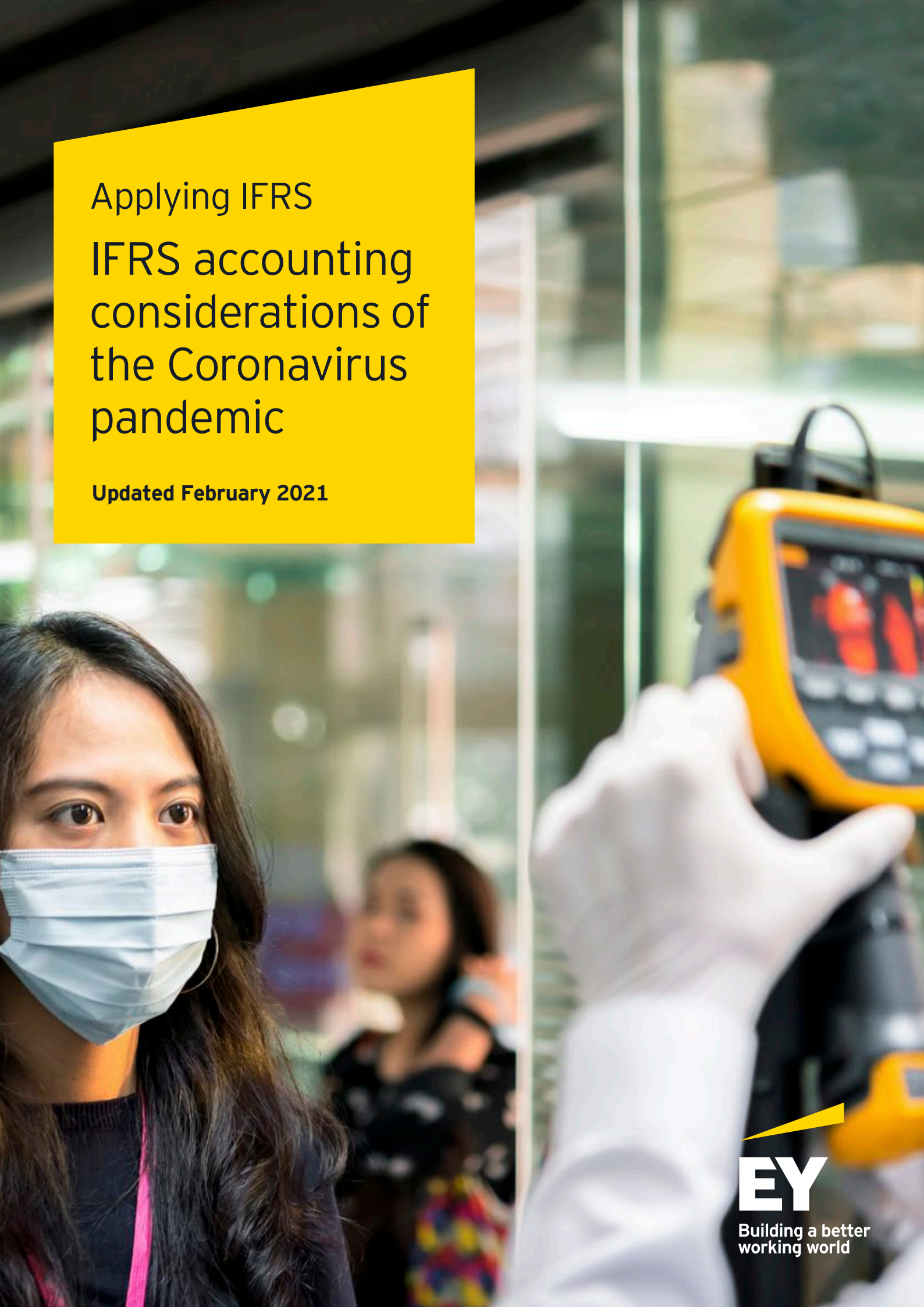

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1. Background

The coronavirus outbreak was first reported near the end of 2019. In late 2019, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO announced that the coronavirus outbreak can be characterised as a pandemic.

The virus has significantly impacted the world economy. Many countries have imposed travel bans and lockdowns on millions of people and more people in more locations are subject to quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. While some countries have eased the lockdown, the relaxation has been gradual and, in some cases, they have had to re-impose stricter measures to deal with renewed outbreaks. As a result of the disruption to businesses, millions of workers have lost their jobs and many businesses, especially those that involve close in-person contact, have been adversely affected. The pandemic has also resulted in significant volatility in the financial and commodities markets worldwide. Various governments have implemented measures to provide both financial and non-financial assistance to the disrupted industry sectors and the affected business and other organisations.

In February 2020, we first issued *Applying IFRS accounting considerations of Coronavirus outbreak,* which focuses on addressing the financial effects when preparing IFRS financial statements for the year ended 31 December 2019. The new circumstances described above have presented entities with greater challenges in preparing their IFRS financial statements.

This publication provides a reminder of the existing accounting requirements that should be considered when addressing the financial effects of the coronavirus pandemic in the preparation of IFRS financial statements for the annual or interim reporting periods ending in 2020.

This publication has since been updated to provide a reminder of the existing accounting requirements that should be considered when addressing the financial effects of the coronavirus pandemic in the preparation of IFRS financial statements for the annual or interim reporting periods ending in 2020. Disclosure considerations for interim financial reporting are also covered in this publication. The issues discussed are by no means exhaustive and their applicability depends on the facts and circumstances of each entity. The financial reporting issues, reminders and considerations highlighted in this publication are the following:

- Going concern
- Financial instruments
- Impairment assessment of non-financial assets
- Government grants
- Income taxes
- Liabilities from insurance contracts
- Leases
- Insurance recoveries

- Onerous contract provisions
- Fair value measurement
- Revenue recognition
- Inventories
- Share-based payment
- Events after the reporting period
- Other financial statement presentation and disclosure requirements
- Other accounting estimates
- Alternative performance measures and disclosures

2. Going concern

IAS 1 *Presentation of Financial Statements* requires management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. Furthermore, disclosures are required when the going concern basis is not used or when management is 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. Disclosure of significant judgement is also required where the assessment of the existence of a material uncertainty is a significant judgement.

The going concern assessment needs to be performed up to the date on which the financial statements are issued.

In assessing whether the going concern assumption is appropriate, the standard requires that all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period, should be taken into account. This assessment needs to be performed up to the date on which the financial statements are issued. Refer to section 3 for further discussion on the current vulnerability entities are facing due to concentration and liquidity risks.

Judgement

Management is required to assess the entity's ability to continue as a going concern. When making that assessment, where relevant, management takes into consideration the existing and anticipated effects of the pandemic on the entity's activities in its assessment of the appropriateness of the use of the going concern basis. For example, when an entity has a history of profitable operations and relies on external financing resources, but because of the pandemic, its operations have been suspended before or after the reporting date, management would need to consider a wide range of factors relating to the current adverse situation including, expected impact on liquidity and profitability before it can satisfy itself that the going concern basis is appropriate. Management should consider all available information about the future which was obtained after the reporting date including measures taken by governments and banks to provide relief to affected entities in their assessment of going concern.

Disclosure

Given the unpredictability of the potential impact of the pandemic, there may be material uncertainties that cast significant doubt on the entity's ability to operate under the going-concern basis. When the entity prepares the financial statements, it is required to disclose these material uncertainties in the financial statements in order to make clear to readers that the going-concern assumption used by management is subject to such material uncertainties.

How we see it

The degree of consideration required, the conclusion reached, and the required level of disclosure will depend on the facts and circumstances in each case, because not all entities will be affected in the same manner and to the same extent. Significant judgement may be required given the nature of the pandemic and the uncertainties involved. Continual updates to the assessments up to the date of issuance of the financial statements are required.

3. Financial instruments (IFRS 9)

The coronavirus pandemic and the related government measures may have a direct impact on the accounting for financial instruments. IFRS 9 *Financial Instruments* and IFRS 7 *Financial instruments: Disclosures* deal with the accounting for financial instruments and the related disclosures. Entities should exercise careful consideration in their accounting for financial instruments. Additional accounting considerations for banks, are also included in this section.

The normal purchase or sale exception

Entities that have revised their expectations on purchases or sales of non-financial items downwards due to the current economic environment should consider how these changes affect the classification and measurement of such contracts and whether they continue to meet the so called 'normal purchase or sale exception' criteria, as described below.

The provisions of IAS 32 *Financial Instruments: Presentation*, IFRS 9 (or IAS 39 *Financial Instruments: Recognition and Measurement* where applicable) and IFRS 7 are applied to certain contracts to buy or sell non-financial items (including those that can be settled net). This is the case unless the contracts are entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements (i.e., it is a 'normal' purchase or sale). Instead of being accounted for as a financial instrument, such a contract is treated as executory until the purchase or sale of the non-financial item occurs. This exception includes a two-part test. In order to qualify as a normal purchase or sale, the contract needs to both (a) have been entered into, and (b) continue to be held, for that purpose.

If a contract which was originally entered into as a normal purchase or sale ceases to be held for that purpose at a later date, it should subsequently be accounted for as a financial instrument under IAS 39 or IFRS 9.

While such revisions in expectations do not preclude an entity from applying the normal purchase or sale exception in the future, regular revisions may cast doubt on management's ability to accurately forecast their normal purchase or sale requirements and, therefore, challenge their ability to use the exception going forward.

Asset classification and business model assessment: impact of sales

A deterioration of the credit quality of the borrower or the issuer of a financial asset, as a result of the coronavirus pandemic, may result in entities deciding to dispose of investments classified as hold-to-collect under IFRS 9. If the sale is due to an increase in credit risk, this could still be consistent with the business model objective hold-to-collect, because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. Selling a financial asset because it no longer meets the credit criteria specified in the entity's documented investment policy is an example of a sale that would be consistent with the 'hold-to-collect' business model.

Additionally, an increase in the frequency and value of sales in a particular period is not necessarily inconsistent with the objective to hold financial assets in order to collect contractual cash flows, if an entity can explain the reasons for those sales and demonstrate why sales in the future will be lower in frequency or value. For example, if, due to a significant decrease in demand for the entity's products or services as a result of the coronavirus pandemic (e.g., airline tickets or hospitality events), the entity faces a temporary liquidity crisis, a sale of financial assets classified as held-to-collect may not be inconsistent with such business model.

Reclassifications triggered by a change in the business model for managing financial assets are expected to be very infrequent and will occur only when an entity either begins or ceases to perform an activity that is significant to its operations and is demonstrable to external parties (for example, an acquisition, disposal or termination of a business line). In such cases, the reclassification should be applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets. Accordingly, any previously recognised gains, losses or interest should not be restated. In our view, this reference to reporting period includes interim periods for which the entity prepares an interim report in accordance with IAS 34.

A change in intention related to particular financial assets (even in case of significant changes in market conditions) is not a change in business model. As a reminder, IFRS 9 does not include the concept of reclassifications due to 'rare circumstances' as per paragraph 50B of IAS 39. Therefore, under IFRS 9, unlike IAS 39, the combination of events caused by the coronavirus pandemic and the related containment measures does not constitute, per se, a trigger for reclassification of financial assets.

Contract modifications

Affected entities may experience cash flow challenges as a result of disruptions in their operations, higher operating costs or lost revenues. Such entities may need to obtain additional financing, amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants. In such cases, they will need to consider the guidance provided in IFRS 9 to determine whether any changes to existing contractual arrangements represent a substantial modification or potentially a contract extinguishment, which would have accounting implications in each case.

For financial liabilities, an entity should derecognise the liability if the cash flows are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires) or if the terms of the instrument have substantially changed.

IFRS 9 provides guidance on determining whether a modification of a financial liability is substantial, which includes a comparison of the cash flows before and after the modification, discounted at the original effective interest rate, commonly referred to as the '10% test'.

IFRS 9 provides guidance on determining if a modification of a financial liability is substantial, which includes a comparison of the cash flows before and after the modification, discounted at the original effective interest rate (EIR), commonly referred to as the '10% test'. If the difference between these discounted cash flows is more than 10%, the instrument is derecognised. However, other qualitative factors could lead to derecognition irrespective of the 10% test (e.g., if a debt is restructured to include an embedded equity instrument).

For financial assets, there is no explicit guidance in IFRS 9 for when a modification should result in derecognition. Hence, entities apply their own accounting policies, which are often based on qualitative considerations and, in some cases, include the '10% test'. However, the IFRS Interpretations Committee has indicated that applying the '10% test' in isolation would not always be appropriate, because of potential inconsistencies with the impairment requirements in IFRS 9. Some preparers may apply different accounting policies depending on whether a modification is granted due to the financial difficulty of the borrower, with some concluding that such circumstance would rarely result in the derecognition of the financial asset. If a measure provides temporary relief to debtors and the net economic value of the loan is not significantly affected, the modification would be unlikely to be considered substantial. For example, if the payment terms of a receivable are extended from 90 days to 180 days, this change on its own would likely not be considered a substantial modification of the receivable.

If, following the guidance above, a modified financial asset or liability does not result in derecognition, the original EIR is retained and there is a catch-up adjustment to profit or loss for the changes in expected cash flows discounted at the original EIR. For floating rate instruments, a change in the market rate of interest is accounted for prospectively. However, any other contractual change (e.g., the spread applied above the interest rate) would also result in a catch-up adjustment at the date of modification.

Hedge accounting

If an entity has designated a transaction such as the purchase or sale of goods or the expected issuance of debt, as a hedged forecast transaction in a cash flow hedge, it will need to consider whether the transaction is still a 'highly probable forecast transaction'.

Business transactions may be postponed or cancelled, or they may occur in significantly lower volumes than initially forecast. If an entity has designated a transaction such as the purchase or sale of goods or the expected issuance of debt, as a hedged forecast transaction in a cash flow hedge, it will need to consider whether the transaction is still a 'highly probable forecast transaction'.

This includes whether the volume or amounts involved will be lower than forecast, whether the timing of the hedged forecast transaction has changed (for example, the acquisition of an item of property, plant or equipment (PP&E) is postponed by six months as a result of the disruption created by the pandemic) or whether it is now no longer probable that a forecast transaction will occur. That is, if the coronavirus pandemic affects the probability of hedged forecast transactions occurring and/or the time period designated at the inception of a hedge, an entity will need to determine whether it can continue to apply hedge accounting to the forecast transaction or a proportion of it, and for continuing hedges whether any additional ineffectiveness has arisen:

- If an entity determines that a forecast transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively. In this case, the accumulated gain or loss on

the hedging instrument that has been recognised in other comprehensive income will remain recognised separately in equity until the forecast transaction occurs.

- If an entity determines that the timing of a forecast transaction has changed, and the cash flows are now expected to occur at a different time than initially forecast, the outcome would depend on the nature of the hedged item and how the hedge relationship was documented:
  - For example, if the hedged forecast transaction was the acquisition of a specific item of PP&E and the expected timing of it has been delayed by six months compared to when initially forecast, it may be argued that the hedged transaction is still highly probable. However, hedge effectiveness would have to be reassessed under the new terms, which could result in some ineffectiveness being recognised in profit or loss.
  - In other cases, judgement may be needed based on the specific facts and circumstance. For example, if the hedged forecast transaction was the interest payments on a loan and those were postponed as a result of a payment holiday, judgement will be needed, considering the terms of the moratorium (including whether interest continues to accrue and whether it results in derecognition of the original loan) and how the hedged risk was designated, in order to establish whether the hedged forecast transaction (or a portion thereof) is still expected to occur or if any additional ineffectiveness arises as a result.
- If an entity determines that a forecast transaction is no longer expected to occur, in addition to discontinuing hedge accounting prospectively, it must immediately reclassify to profit or loss any accumulated gain or loss on the hedging instrument that has been recognised in other comprehensive income.

Fair value hedges are not subject to the highly probable forecast transaction assessment. However, if the timing of the hedged cash flows changes without a corresponding change in the hedging instrument, this will cause ineffectiveness. Consideration will also be required as to whether the qualifying effectiveness assessment (applicable under IAS 39) or the economic relationship criteria (applicable under IFRS 9) is still met as a result of the change in the hedged item.

Both IFRS 9 and IAS 39 contain a requirement to consider the recoverability of a loss which has been deferred in the cash flow hedge reserve. Where an entity expects that all or some of that loss will not be recovered, the unrecoverable portion should immediately be reclassified to profit or loss. For example, if an entity enters into a forward contract to fix the cash flow risk associated with a highly probable forecast purchase of a commodity and the price of that commodity subsequently drops, the hedging contract is likely to be in a liability position. The related loss, to the extent that the hedge is highly effective, will be deferred in the cash flow hedge reserve. This loss may not be recoverable if the entity does not expect to be able to sell the commodity or utilise it in a manner that would recover both the ultimate purchase price and the loss that will be realised on the commodity hedge.

As neither IFRS 9 nor IAS 39 provides guidance on how to perform the recoverability test, entities should consider the guidance on the recoverability of assets which is contained in other IFRS such as IAS 2 *Inventories* on determining net realisable value of inventory, IAS 36 *Impairment of assets* on

impairment testing of non-financial assets or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on onerous contracts. The outcome of applying these different methodologies may differ. Therefore, entities should exercise judgement in determining the most appropriate methodology based on the specific facts and circumstances of the hedge relationship.

Expected credit loss (ECL) assessment

The deterioration in credit quality of loan portfolios, but also, for example, of trade receivables, as a result of the pandemic will have a significant impact on the ECL measurement.

The occurrence of large-scale business disruptions potentially gives rise to liquidity issues for certain entities. It might also have consequential impacts on the credit quality of entities along the supply chain. This will also have knock on effects on retail portfolios (consumer and mortgage loans) as many businesses will have to reduce staff numbers resulting in an increase in the number of unemployed workers. The deterioration in credit quality of loan portfolios, but also, e.g., of trade receivables, as a result of the pandemic will have a significant impact on ECL measurement. In responding to these challenges, certain governments and central banks have introduced, or have directed or encouraged commercial banks to introduce, various types of relief measures.

A number of prudential and securities regulators, including the European Banking Authority (EBA), the European Central Bank (ECB), the European Securities and Market Authority (ESMA) and the Prudential Regulation Authority (PRA) in the United Kingdom (the regulators) have published guidance on the regulatory and accounting implications of the pandemic. In March 2020, the International Accounting Standards Board (the IASB or Board) published a document, for educational purposes, to help support the consistent application of accounting standards in the context of ECL. The document is broadly consistent with the guidance from the regulators and emphasises that IFRS 9 does not set bright lines or a mechanistic approach to determining when there is a significant increase in credit risk (SICR), nor does it dictate the exact basis on which entities should determine forward looking scenarios to measure expected credit losses.

The use of reasonable and supportable information

The measurement of ECL should be based on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money.

The measurement of ECL should be based on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. Entities should exercise judgement and their best efforts to consider all reasonable and supportable information available about past events, current conditions and forecasts of future economic conditions, as described further in this publication.

The IASB acknowledges that it is likely to be difficult at this time to incorporate the specific effects of the pandemic and government support measures on a reasonable and supportable basis. When it is not possible to reflect such information in models, the IASB expects post-model overlays or adjustments to be considered.

Given the unprecedented circumstances, it is critical that entities provide transparent disclosure of the critical assumptions and judgements used to measure the ECL.

Re-segmentation of loan portfolios or groups or receivables

For the purpose of measuring ECL and for determining whether an SICR has occurred, an entity should group financial instruments on the basis of shared

credit risk characteristics and reasonable and supportable information available on a portfolio basis.

The occurrence of the coronavirus pandemic might change the risk characteristics of certain loans or receivables, because the respective borrowers or customers might engage in businesses, or locate in areas, which have become affected, or are more prone to be affected, by the pandemic. Therefore, entities should consider (re)segmenting (sub)portfolios.

Individual and collective assessment of loans, receivables and contract assets

Due to the abnormal circumstances, it may take time for an entity to detect actual changes in risk indicators for a specific counterparty. In order to accelerate the reflection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default (PD) on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers. Entities using a provision matrix approach to calculate ECL for trade receivables will need to make appropriate adjustments to their historical loss rates and reflect the current economic environment as well as forward looking information. For example, a supplier of products or services to the airline industry would likely consider that the PD (or loss rates, if a provision matrix approach is used) of its customers has increased irrespective of specific events identified at the level of individual counterparties.

In estimating PD, loss rates and ECL, entities should consider the effect of any state aid plans to support customers through various measures (e.g., refinancing measures or other forms of financial support, including guarantees). Additionally, entities which are using multiple economic scenarios when estimating ECL should consider updating these scenarios to reflect the current change in circumstances (for further guidance, refer to the section 'Additional considerations on ECL for banks' below).

Extension of payment terms

As indicated previously, if payment terms are extended in light of the current economic circumstances, the terms and conditions of the extension will have to be assessed to determine their impacts on the ECL estimate as well as any other accounting impacts. For example, if the payment terms of a receivable are extended from 90 days to 180 days, this would likely not be considered a substantial modification of the receivable. However, such an extension may result in an increase in PD, which would, in turn, affect the measurement of ECL. For entities which do not apply the simplified model, such extension may also result in moving the receivable to stage 2, depending on the extent and terms of the payment extension. However, if the same extension of payment terms is offered to an entire class of customers irrespective of individual circumstances, this should generally not result, by itself, in a stage movement.

Additional considerations on ECL for banks

Payment holidays and breaches of covenants

The accounting impact of relief measures on ECL depends on the details of the arrangements. For example, the extension of payment holidays or a waiver of a breach of covenant to all borrowers in particular classes of financial instruments should not automatically result in all those instruments suffering a SICR. This would be the case even if a moratorium results in a loss for the lender (e.g., if interest payments are reduced or waived), if it is provided irrespective of the borrowers' individual circumstances.

In other situations, if the relief measures are available only to those who meet certain criteria, entities need to carefully assess whether such criteria themselves might indicate a SICR for the affected borrowers. For instance, a SICR is more likely to have occurred if a borrower applies for a relief measure which is available only to corporates which have suspended operations or individuals who have lost employment. Another example is if the relief, such as a deferral of loan payments, is offered to all participants in certain industries. This circumstance may indicate that borrowers in that industry are exposed to a higher risk of business failure and, thus, a higher probability of default as a class. In combination with other reasonable and supportable information, this is more likely to result in the classification of the related loans and other exposures in this portfolio, or a portion of them, into stage 2. The assessment should be made irrespective of the fact that a concession is imposed by laws or regulations. Entities are also expected to exercise judgement, in light of all facts and circumstances, including the effect of government support, to determine if the respective loans are credit impaired and should therefore be classified as stage 3.

Regulators have stressed the need to differentiate a temporary liquidity need from a SICR and highlighted that there may be very limited information available to make this determination at an individual borrower level. This means that lenders should distinguish between obligors whose long-term credit risk is unlikely to be significantly affected by the pandemic from those who may be more permanently impacted. In light of the above, the 30 days past due backstop assumption may need to be rebutted in the current circumstances.

Entities whose models include such events as automatic SICR triggers may need to include overlays to unwind the effects if they determine that SICR trigger is not warranted in this situation.

Entities whose models include such events as automatic SICR triggers may need to include overlays to unwind the effects if they determine that SICR trigger is not warranted in this situation.

For retail loans, data will often not be available to determine whether a SICR has occurred for individual borrowers. For wholesale exposures, more information is generally available on individual obligors, although the SICR assessment will still be difficult. A lender may consider that borrowers in certain industries (e.g., airlines, tourism and hospitality) are exposed to a higher risk of business failure and, thus, an increased PD.

When it is not practical to determine SICR on an individual basis, a collective approach to staging should be considered. This will also be challenging. A possible method could be to transfer to stage 2 a portion of those customers who have been given a payment holiday or a waiver of a covenant breach, whose PD was already close to the level that would trigger an SICR. Any approach will require considerable judgement.

As indicated previously, if a measure provides temporary relief to borrowers and the net economic value of the loan is not significantly affected, the modification would be unlikely to be considered substantial. It follows that the effect of any such waiver of interest or capital (measured using the original effective interest rate of the loan) must be recorded as an expense in profit or loss as soon as it is granted.

Where additional rounds of relief measures are extended to existing borrowers, the same considerations which were applicable to assessing the initial relief are also applicable in determining whether the additional relief constitutes a SICR. If the extension of the relief measures is offered only to selected borrowers (e.g., upon individual requests), it may be harder to conclude that a SICR has not occurred, as the need for additional relief may be in response to further deterioration in the borrower's financial position.

Individual and collective assessment, multiple macroeconomic scenarios and management overlays

Whether the impact of the pandemic is reflected in an individual ECL assessment (e.g., estimation of probability of default on an individual basis), factored into the scenario analysis of future macroeconomic conditions on a collective basis, or adjusted through management overlays, depends on the bank's systems and processes and the facts and circumstances. In practice, entities may probably consider a combination of these approaches. In estimating the impact of the coronavirus pandemic, entities should, however, avoid double-counting of the effects of various assumptions applied in individual assessment, macroeconomic scenarios and management overlays.

Due to the abnormal circumstances, it may take time before banks detect changes in risk indicators at a specific borrower level and are able to reassess the affected exposures. In order to accelerate the reflection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers. However, many methods for performing collective assessments make use of historical information, which may not be relevant in the current circumstances.

Many financial institutions consider multiple macroeconomic scenarios in the assessment of ECL. In addition to updating GDP expectations for the various scenarios, a challenge will be to estimate how the impact of the coronavirus pandemic and any related government programmes will affect specific sectors, regions and borrowers, especially as the details surrounding many government programmes continue to evolve.

The IASB noted that a number of assumptions and linkages underlying the way ECL has been implemented to date may no longer hold in the current environment. For example, the relationship between GDP and other macroeconomic variables, such as unemployment and interest rates, and sector-specific variables, such as oil prices, is very likely to be different from what has been experienced in the past and is currently used in economic forecasting models. The probability weightings assigned to macroeconomic scenarios may also need to be revisited. However, the IASB still expects changes in economic conditions to be reflected in the macroeconomic scenarios

and in their weightings and, when the effects of the pandemic cannot be reflected in the models, post-model overlays or adjustments will need to be considered.

In estimating overlays, entities may consider historical experience, including, for instance, the impact of similar events such as the SARS outbreak in 2003. However, it appears clear that the widespread nature and severity of the consequences of the coronavirus pandemic is not directly comparable with any recent similar events. It may be appropriate for this purpose, to plot several possible scenarios of what might happen over the coming months and assign weightings to them, to ensure that any overlay reflects the inherent uncertainty and non-linearity of potential outcomes.

Impact of financial support and credit enhancements

The effect of any form of support provided by a government or a parent company depends, firstly, on whether its effect is to prevent a default by the borrower, or to compensate a lender for losses it suffers due to the borrower's default.

The effect of any form of support provided by a government or a parent company depends, firstly, on whether its effect is to prevent a default by the borrower, or to compensate a lender for losses it suffers due to the borrower's default. In some cases, a government or a parent company may provide direct financial support to a borrower. For example, the government may offer to compensate employees who have lost their job with a portion of their previous salary for a period of time. These forms of financial support prevent or reduce the extent to which a borrower would otherwise default on a loan. These forms of financial support are considered in a lender's assessment of SICR and ECL as it reduces the credit risk associated with the underlying loan.

In other cases, a guarantee may be issued to a lender to compensate it for losses it suffers due to default by a borrower. Such a guarantee does not prevent default by a borrower, but rather reduces the effect of any default. The accounting effect of such a guarantee depends on whether it is integral to the contractual terms of the guaranteed loan and whether it is required to be recognised separately by the lender. If it is integral to the loan and is not required to be recognised separately by a lender, the guarantee is taken into account in calculating the loss given default (LGD) of the guaranteed loan, however, it does not affect the SICR assessment. The impact of the pandemic on the value of the enhancement (e.g., shares or bond prices, real-estate values and the credit standing of any guarantor) also needs to be considered.

In December 2015, the IFRS 9 Transition Resource Group observed that credit enhancements included in the measurement of ECL should not be limited to those that are explicitly part of the contractual terms. ESMA, in its public statement issued on 25 March 2020, considered that a guarantee will be integral "*when a public guarantee is provided in conjunction with broadly applicable ex-lege moratoria or economic support and relief measures*". Whether a credit enhancement is integral depends on an assessment of individual facts and circumstances and is likely to require judgement. If the guarantee is issued at the same time as the loan and is inseparable from it, it would be generally considered to be integral to the loan and therefore included in the measurement of ECL. If the guarantee is issued on existing loans instead, it would generally not be considered integral to that loan if it was not anticipated when the loan was originally granted.

If a guarantee is not considered to be integral, it may still meet the criteria to be recognised as a reimbursement asset by analogy to IAS 37 , which would have to be recognised separately in the statement of financial position and may result in an offsetting entry in profit or loss, depending on the accounting policy of the lender.

Where guarantees are issued by governments for a below market rate fee, both borrowers and lenders will have to assess whether this constitutes a government grant to be accounted for and disclosed in accordance with IAS 20.

Where guarantees are issued by governments for a below market rate fee, both borrowers and lenders will have to assess whether this constitutes a government grant to be accounted for and disclosed in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. In performing such an assessment, entities will need to consider the level of the interest rate offered to the borrower on the guaranteed loan and whether the economics of the overall transaction are providing a benefit to the lender, the borrower or to both. For example, if a benefit to a lender from a below market-rate fee on a guarantee is required to be partially offset by a reduction in the interest earned on the loan to the borrower, the value of any government grant to the lender may be reduced or eliminated. In such a case, the value of the grant accrues mainly to the borrower in the form of a below market rate loan relative to the borrower's credit risk.

Where such guarantees are provided at below market rates by holding companies or other group entities, the initial benefit provided may need to be accounted for as an equity transaction between group entities.

Disclosures

Current vulnerability due to concentration and liquidity risks

Entities with concentrations of risk may face greater risk of loss than other entities. Paragraph 34(c) of IFRS 7 requires that concentration of risk should be disclosed if not otherwise apparent from other risk disclosures provided. Therefore, entities should consider including the following information:

- A description of how management determines concentrations of risk
- A description of the shared characteristic that identifies each concentration. For instance, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries and/or by industry
- The amount of the risk exposure associated with all financial instruments sharing that characteristic

Entities that have identified concentrations of activities in areas or industries affected by the pandemic not previously disclosed should now reconsider making such a disclosure.

Entities that have identified concentrations of activities in areas or industries affected by the pandemic (e.g., the airline, hospitality and tourism industries) and have not previously disclosed the concentration because they did not believe that the entity was vulnerable to the risk of a near-term severe impact, should now reconsider making such a disclosure.

Similarly, liquidity risk in the current economic environment is increased. Therefore, it is expected that the disclosures required under IFRS 7 in this area will reflect any significant changes in the liquidity position as a result of the coronavirus pandemic. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

For entities that will prepare interim financial statements under IAS 34 *Interim Financial Reporting*, if concentration and liquidity risks have significantly changed compared to their most recent annual financial report, they should disclose the above information in their interim financial statements.

Significant judgements and estimates

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, the disclosure of the key assumptions used, and judgements made in estimating ECL is particularly important. This is the case both for annual reporters and for entities that will prepare interim financial statements under IAS 34, as the inputs into the ECL measurement may have significantly changed compared to their most recent annual or interim financial report. Important disclosures would include, for example, the values of the key macroeconomic inputs used in the multiple economic scenario analysis and the probability weights of these scenarios, as well as the assumptions used to determine how the different challenges for specific sectors and regions have been taken into account and the effect of any management overlays.

Additional considerations on disclosures for banks

Lenders will be expected to provide more information on their exposures by sector and region. To the extent that entities have the legal and regulatory flexibility to do so, it is likely that some of the disclosures normally given in an interim report which are not related to credit risk will be reduced, to focus on the information of particular concern to users at this time.

In addition, entities should provide disclosures to allow users of financial statements to understand the nature of any material reliefs offered to their borrowers, including those enforced by governments, and how they have assessed whether they constitute forbearance, whether they result in a substantial modification of the contract, their effect on staging and the impact on the overall ECL. Entities should also disclose any material form of government grant or government assistance received in accordance with IAS 20.

Entities should also consider any guidance and expectations on disclosures of ECL in the current environment that may be issued by prudential and securities regulators in their jurisdictions.

How we see it

The assessment of the impact of the coronavirus pandemic on ECL will require significant judgement, especially as it is not directly comparable with any recent similar events and the impact will depend on government measures as much as the spread of the virus. Entities will have to update their macroeconomic scenarios and consider the use of top-down 'management overlays' to embed in the ECL risks not yet fully captured by their models. Given the level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in estimating ECL, as well as the impact of any relief measures, is going to be important.

4. Financial instruments (IAS 39)

Considerations under IAS 39 applied by insurance companies

Although IFRS 9 replaced IAS 39, many insurance companies currently still apply IAS 39 as allowed by IFRS 4 *Insurance Contracts*. For those insurance companies, different classification and measurement requirements and different impairment requirements apply from those described for IFRS 9 (see section 3 above). In addition, there are some differences related to (de)recognition, hedge accounting and disclosures, although, for these topics, many of the aspects mentioned above are also relevant to IAS 39. The main accounting considerations for financial assets under IAS 39 in light of the coronavirus pandemic are set out below.

Classification

Classification takes place at initial recognition. However, IAS 39 allows certain reclassifications of financial assets between measurement categories subsequently. Such reclassifications include, amongst others, a reclassification out of the held-for-trading portfolio into the available-for-sale or held-to-maturity portfolios in 'rare circumstances'. The combination of events caused by the coronavirus pandemic and the related containment measures qualifies, in our view, as 'rare circumstances' under paragraph 50B of IAS 39.

Any reclassifications are applied prospectively from the date the entity decides to make the reclassification. Derivatives and financial assets designated as at fair value through profit or loss cannot be reclassified.

If entities intend to sell instruments classified as held-to-maturity, e.g., for liquidity reasons, they should be aware of the 'tainting' provisions, which if triggered, result in a reclassification as available-for-sale, with the asset being remeasured to fair value and any associated gain or loss recognised in other comprehensive income.

Measurement

Important measurement impacts of the coronavirus pandemic are related to determining: (a) the fair value of financial assets for measurement and disclosure purposes; and (b) whether a financial asset not measured at fair value through profit or loss is impaired and, if so, estimating the amount of the impairment.

For the considerations on determining the fair value of financial assets, refer to section 12 of this publication. The considerations on the impairment of financial assets are further addressed below.

Impairment

Under IAS 39, all financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. Assessments should be made at the end of each reporting period as to whether there is any objective evidence that a financial asset or group of assets is impaired.

Under IAS 39, all financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. Assessments should be made at the end of each reporting period as to whether there is any objective evidence that a financial asset or group of assets is impaired.

A financial asset or a group of assets is impaired (and impairment losses are determined) if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a loss event) and

that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated.

It may not be possible to identify a single discrete event that caused the impairment. Rather, the combined effect of several events may cause an impairment, which is important to consider under the current circumstances as the coronavirus pandemic and the resulting containment measures are causing a range of adverse effects, for example, a sharp decline in financial markets, strongly reduced sales, a sharp increase in unemployment rates.

Losses expected as a result of future events, no matter how likely, are not recognised under IAS 39.

Available-for-sale equity instruments

A significant or prolonged decline in the fair value of an investment in such an instrument below its cost gives rise to objective evidence of impairment of an investment in equity instruments classified as available-for-sale.

This trigger applies in addition to those specific to debt instruments described in the next section.

Insurance companies applying IAS 39 often classify their investments in equity instruments as available-for-sale. The current decline in financial markets following the coronavirus pandemic may have caused the value of these equity securities to drop below their cost. Entities need to assess whether these market conditions give rise to a significant or prolonged decline in fair value that is objective evidence of impairment, in which case, the negative amount recognised in other comprehensive income for the impaired instruments should be recycled to profit or loss immediately. The determination of what is 'significant or prolonged' requires judgement. The basis for what is considered 'significant or prolonged' needs to be applied consistently from period to period.

As the current volatile market conditions may continue for a while, entities should continue to closely monitor the developments and determine the impact on the recognised impairment amounts. For any equity instruments for which a prior impairment loss has been recognised, 'significant' should be evaluated against their original cost at initial recognition and 'prolonged' should be evaluated against the period in which the fair value of the investments has been below original cost at initial recognition. Consequently, once an impairment loss has been recognised, any further decline in fair value at the next reporting date, whatever its cause, should be recognised in profit or loss as well. Any subsequent increase in the fair value of the equity instrument is recognised in other comprehensive income and the impairment loss previously recognised in profit or loss is not reversed through profit or loss.

Impairments of available-for-sale equity instruments recognised in a previous IAS 34 interim report should not be reversed in a subsequent interim period or the annual period.

Available-for-sale debt instruments

A financial asset or a group of assets is impaired (and impairment losses are determined) if, and only if, there is, at the reporting date, objective evidence of impairment as a result of one or more events that occurred after initial

recognition (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets.

IAS 39 refers to several examples of events where observable data from these events could provide such objective evidence, for example, significant financial difficulty of the issuer or obligor, a breach of contract (such as a default or delinquency in interest or principal payments), the lender granting to the borrower a concession that would not otherwise be considered, the increasing probability that the borrower will enter bankruptcy, or other financial reorganisation, or national or local economic conditions that correlate with defaults on the assets in the group.

Other factors that would be considered in determining whether an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees.[1]

Entities should carefully consider whether the observable data from current stressed market conditions and the economic situation following the coronavirus pandemic may give rise to objective evidence of a loss event.

Entities should carefully consider whether the observable data from current stressed market conditions and the economic situation following the coronavirus pandemic may give rise to objective evidence of a loss event. For example, measures such as the extension of repayment terms for a short period of time (e.g., 3 or 6 months) which are available country-wide regardless of the credit standing would generally not be considered an impairment trigger per se. However, the fact that a measure is offered to a certain sector or industry may be considered evidence of impairment for issuers in the sector or industry and would require further assessment.

When a decline in the fair value of an available-for-sale debt instrument has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss within equity should be reclassified to profit or loss. The amount of the loss that should be reclassified is the difference between the acquisition cost of the asset (net of any principal repayment and amortisation for assets measured using the effective interest method) and current fair value, less any impairment loss on that asset previously recognised in profit or loss. If, in a subsequent period, the fair value of an available-for-sale debt instrument increases, and the increase can be objectively related to an event occurring after the loss was recognised in profit or loss, the impairment loss should be reversed and recognised in profit or loss. Judgement is required to determine whether a recovery in the fair value of an available-for-sale debt security relates to an event that occurred after the loss was recognised.

Amortised cost debt instruments

Financial assets carried at amortised cost follow the same principle of a loss event as available-for-sale debt instruments (see above). If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments, that loss should be measured as the difference between the asset's carrying amount and the present value of estimated future

[1] A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be when considered with other available information. Also, a decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment, for example, the fair value of a debt instrument may decline solely due to an increase in the risk-free interest rate.

cash flows. Those cash flows, which should exclude future credit losses that have not been incurred, should be discounted at the original effective interest rate of the financial asset, i.e., the effective interest rate computed at initial recognition.

If, in a subsequent period, the amount of the impairment or bad debt loss decreases and the decrease can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), the previously recognised impairment loss should be reversed with the reversal recognised in profit or loss.

Modifications

In respect of contract modifications and any resulting derecognition of financial instruments, refer to those described for IFRS 9 in section 3 as the guidance on derecognition in IAS 39 is comparable. However, there is a noticeable difference with respect to a modification of the cash flows of a financial liability where the liability is not derecognised. In such a situation, IFRS 9 requires that any modification gains or losses are recognised in profit or loss immediately, whereas under IAS 39, it would be acceptable to recognise such gains or losses over the remaining term of the liability due to a lack of specific guidance.

Hedge accounting

Business transactions may be postponed or cancelled, or they may occur in significantly lower volumes than initially forecast. The resulting hedge accounting considerations for financial instruments are addressed in section 3 on IFRS 9, which also describes the implications under the hedge accounting guidance of IAS 39.

Disclosures

The current situation caused by the coronavirus pandemic may result in a need for additional disclosure, for example, regarding vulnerability due to concentration and liquidity risks. See section 3 on concentration and liquidity disclosures.

Within the context of applying IAS 39's incurred loss model, entities should provide several disclosures relating to the following aspects of credit risk: the maximum exposure to credit risk; credit quality of financial assets; financial assets that are either past due or impaired; collateral; and other credit enhancements obtained. Entities should consider in their disclosures how these aspects have been affected by the coronavirus pandemic. These disclosures would include an explanation of the nature of any material reliefs offered to borrowers, including those enforced by governments, and how the entities have assessed whether they constitute evidence of impairment and whether they result in a substantial modification of the contract.

How we see it

Even though IAS 39 has been applied for many years, the coronavirus pandemic is unprecedented and may result in various challenges in the accounting for financial assets held by insurance companies. In particular, the recent sharp decline in financial markets and the stressed economic situation require a careful analysis of whether these developments have given rise to objective evidence of an incurred loss event.

In addition, insurers should carefully consider the impact of the changes in the values of their financial assets on the insurance liabilities as the measurement of some types of insurance labilities is affected by the results from those financial assets through profit sharing features and shadow accounting mechanisms.

5. Impairment assessment of non-financial assets

An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal (FVLCD) and the value in use (VIU). Value in use is defined as the present value of the future cash flows expected to be derived from an asset or cash generating unit. The calculation of an asset's value in use incorporates an estimate of expected future cash flows and expectations about possible variations of such cash flows.

IAS 36 requires an entity to assess, at the end of each reporting period (either year-end or IAS 34 interim reporting date), whether there is any impairment of an entity's non-financial assets. For goodwill and intangible assets with indefinite useful lives, IAS 36 requires an annual impairment test and also when indicators of impairment exist. For other classes of assets within the scope of the standard, an entity is required to assess at each reporting date whether there are any indications of impairment. The impairment test only has to be carried out if there are such indications.

In accordance with IFRIC 10 *Interim Financial Reporting and Impairment,* an entity may not reverse an impairment loss that was recognised in a previous IAS 34 interim report in respect of goodwill in any subsequent reporting period.

Events after the reporting period and information received after the reporting period should be considered in the impairment indicator assessment only if they provide additional evidence of conditions that existed at the end of the reporting period. Similarly, the determination of the recoverable amounts of an asset should only consider the information obtained after the reporting date if such information relates to conditions existing as of the reporting period end. Judgement of all facts and circumstances is required to make this assessment.

Existence of impairment indicators

As mentioned above, an entity is required to assess at the reporting date, for all assets in scope of IAS 36, whether there are any indicators of impairment. With the recent developments of the pandemic, there are both external and internal sources of information, such as the fall in stock and commodity prices, decrease in market interest rates, manufacturing plant shutdowns, shop closures, reduced demand and selling prices for goods and services, etc., indicating that an asset may be impaired. The entity should also consider the extent to which updates to its assessment are needed to ensure it reflects the most recent facts and circumstances.

In addition, IAS 36 requires entities to assess, at each reporting date, whether there is any indication that an impairment loss may no longer exist or may have decreased for all assets other than goodwill. If there is any such indication, the entity has to recalculate the recoverable amount of the asset. The standard sets out examples of what it notes are in effect 'reverse indications' of impairment.

When assessing impairment, entities are required to determine the recoverable amounts of the assets, being the higher of FVLCD and VIU.

Measurement

When assessing impairment, entities are required to determine the recoverable amounts of the assets, being the higher of FVLCD and VIU. Significant judgement may be required to determine the extent to which an entity meets the conditions in IAS 36 to permit it to use the most recent detailed calculation made in a preceding period of the recoverable amount in the impairment test. As we expect that many entities will not meet these conditions in the current environment, additional disclosures supporting this judgement may be useful when this is applied.

FVLCD is the fair value as defined in IFRS 13 which has been explained in section 12 *Fair value measurement* below. The estimation of the VIU involves estimating the future cash inflows and outflows that will be derived from the use of the asset and from its ultimate disposal and discounting the cash flows at an appropriate rate.

In cases where the recoverable amount is estimated based on value in use, the considerations on accounting estimates apply. The forecast cash flows should reflect management's best estimate, at the end of the reporting period, of the economic conditions that will exist over the remaining useful life of the asset. With the current uncertain situation, significant challenges are expected in the preparation of the forecast or budgets for future cash flows. In these circumstances, an expected cash flow approach based on probability-weighted scenarios may be more appropriate to reflect the current uncertainty rather than a single best estimate when estimating value in use.

In cases where entities are receiving government grants in relation to the pandemic and these cash flows are part of the recoverable amount, entities should carefully consider the conditions of any government grant in order to assess whether the inclusion of such amounts in the impairment test is based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset or CGU.

When an impairment loss is incurred, the entity first reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs. To the extent goodwill has been written off, the entity then reduces the other assets of the CGU (or group of CGUs) pro rata to their carrying amount, subject to the limitation that the carrying amount of an asset should not be reduced to the higher of its recoverable amount or zero. Due to this restriction, it is logically possible for the net revised carrying amount of the items included in the CGU to be higher than the CGU's computed recoverable amount. In such a case, the remaining amount will only be recognised as a liability if that is a requirement of another standard.

Since the remaining useful life for many assets is long term, entities should consider not just the immediate effect, but also the subsequent effect of the coronavirus pandemic. For example, if the entity expects to abandon an item of property, plant or equipment at a future date, it will need to adjust the depreciable period and write down the carrying amount of the asset to its residue value if any over the period up to that date.

Disclosure

The more the current environment is uncertain, the more important it is for the entity to provide detailed disclosure of the assumptions taken, the evidence they are based on and the impact of a change in the key assumptions (sensitivity analysis).

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in estimating recoverable amount will be particularly important. This is especially the case as they will have likely been materially updated compared to the key assumptions, judgements and estimates applied in the latest annual financial statements. These would include, for example, the values of the key assumptions, sensitivity analysis, and the probability weights of multiple scenarios when using an expected cash flow approach.

IAS 34 states that an interim financial report should explain events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the previous annual reporting period and provide an update to the relevant information included in the financial statements of the previous year. The standard refers specifically to recognition of a loss from the impairment of property, plant and equipment and intangible assets and the reversal of such an impairment loss.

How we see it

As the crisis evolves and the conditions are unpredictable, at this stage, management is required to exercise significant judgement to assert reasonable assumptions that reflect the conditions existing at the reporting date for impairment testing. We expect that in the current situation, majority of these assumptions are subject to significant uncertainties. As such, entities should consider providing detailed disclosures on the assumptions and sensitivities.

6. Government grants

Requirements

Many countries' governments, agents or similar bodies have introduced (or are expected to introduce) measures to assist entities. Not all of these measures are considered government grants. Judgement may be needed to determine the appropriate accounting.

IAS 20 applies to the accounting for, and the disclosure of, government grants and to the disclosure of other forms of government assistance. The distinction between government grants and other forms of government assistance is important because the standard's accounting requirements only apply to the former. Government grants are a specific form of government assistance and relate to the transfers of resources to an entity in return for past or future compliance with certain conditions relating to the entity's operating activities. The purpose of government grants, which may be called subsidies, subventions or premiums, and other forms of government assistance is often to encourage a private sector entity to take a course of action that it would not normally have taken if the assistance had not been provided.

SIC-10 *Grants with no specific relation to operating activities* addresses the situation in some countries where government assistance is provided to entities, but without any conditions specifically relating to their operating activities, other than to operate in certain regions or industry sectors.

Scope

Recently many countries' governments, agents or similar bodies have introduced (or are expected to introduce) relevant measures to assist entities in response to the coronavirus. These measures include direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low-interest loans.

Whilst the benefit of a low-interest loan would be accounted for under IFRS 9 and IAS 20, not all these measures are accounted for as government grants. For example, a reduction of income tax is accounted for under IAS 12 *Income Taxes,* rental reductions or deferrals may be accounted for under IFRS 16 *Leases,* and government grants related to agricultural activity are dealt in IAS 41 *Agriculture*.

Since the coronavirus pandemic began, some governments have provided indirect support in the form of guarantees to lenders to the entity. For example, a government may offer to guarantee loans taken out by entities that meet certain conditions. The government does not charge the lender a fee for this guarantee. Consequently, with the credit enhancement provided by the guarantee, the lender is able to reduce the interest rate charged to the entity. Although guarantees are excluded from the definition of grants (as an example of government assistance that cannot reasonably have a value placed on them), where it can be demonstrated that a fair value can be determined for the guarantee and the guarantee is not integral to the loan, then it could be accounted for separately as a government grant. This determination will depend on the facts and circumstances of the guarantee; an assessment of whether the guarantee is integral to the loan is a matter of judgement.

Accordingly, entities should analyse all facts and circumstances carefully to apply the appropriate relevant accounting standards. We will focus on the accounting for government grants under IAS 20 in this section and will have

more detailed analysis in other sections to discuss the accounting for those measures which are governed by accounting standards other than IAS 20.

Recognition in the statement of financial position

Government grants should be recognised as an asset only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. For example, when the government has decided to give out special subsidies to the affected entities, government grants can be recognised only when it is confirmed that an entity is eligible to receive the subsidy and that any conditions attaching to these subsidies are met. In cases where subsidies relating to coronavirus pandemic are given to entities without any specified conditions, an asset can be recognised at the time when it is reasonably certain that the grants will be received. Nevertheless, it is important to note that the receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been, or will be, fulfilled.

Recognition in the income statement

Government grants must be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Care is needed to identify the conditions giving rise to the costs and expenses which determine the periods over which the grant should be recognised in income. It may also be appropriate to allocate part of the grant on one basis and part on another. In cases where a grant relates to expenses or losses already incurred, or for the purpose of giving immediate financial support to the entity with no future related costs expected to be incurred, the grant should be recognised in income when it becomes receivable. If such a grant is recognised as income of the period in which it becomes receivable, the entity should disclose its effects to ensure that these are clearly understood.

Government may decide to stimulate economic activity by providing subsidies on investments by entities. If these subsidies are related to investment in assets which will be used by the entities over a longer term, the grant should be recognised in profit or loss over the useful lives of those related acquired assets.

Measurement

Direct cash assistance or subsidies will be measured at their fair value. However, government grants can take other forms. For example, when a government grant takes the form of a low-interest government loan, the loan should be recognised and measured in accordance with IFRS 9 (at its fair value) and the difference between this initial carrying value of the loan and the proceeds received is treated as a government grant. A forgivable loan from government, the repayment of which will be waived under certain prescribed conditions, is initially accounted for as a financial liability under IFRS 9 and would only be treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness. When government grants take the form of a transfer of non-monetary assets, such as plant and equipment, for the use of the entity, entities may apply an accounting policy choice to account for such grants at fair value of the non-monetary assets or at a nominal amount

Presentation

Grants that are related to assets should be presented in the statement of financial position either by setting up the grant as deferred income, which is presented as income over the useful life of the asset; or by deducting the grant in arriving at the carrying amount of the asset, in which case, the benefit is presented in profit or loss as a reduction to depreciation.

Grants related to income should be presented either as a credit in the income statement, either separately or under a general heading such as 'other income', or as a deduction in reporting the related expense.

The presentation approach should be applied consistently to all similar grants and appropriately disclosed.

Disclosure

IAS 20 requires entities to disclose the following information:

- The accounting policy adopted for government grants, including methods of presentation adopted in the financial statements
- The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

How we see it

Whether IAS 20 should be applied depends on the facts and circumstances of the specific measures implemented by the government, including government agencies and similar bodies. Entities need to analyse all facts and circumstances carefully to determine the appropriate accounting treatment.

7. Income taxes

Requirements

Recent government responses to the coronavirus pandemic have included income tax concessions and other rebates. Entities need to consider the impacts of these legislative changes on their accounting for income taxes.

A range of economic stimulus packages have been announced by governments around the world. Recent government responses to the coronavirus pandemic have included income tax concessions and other rebates. Entities need to consider the impacts of these legislative changes on their accounting for income taxes. IAS 12 *Income Taxes* requires current tax liabilities and assets for current and prior periods to be measured at the amount expected to be paid to (or recovered from) the taxation authority, using the tax rates and laws that were enacted, or substantively enacted, by the end of the reporting period. Deferred tax assets and liabilities must be measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, also using the tax rates and laws that were enacted, or substantively enacted, by the end of the reporting period.

Accounting estimates

To avoid errors in the preparation of financial statements, paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to use reliable information that was available when those financial statements were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Changes in accounting estimates that result from new information or new developments are not considered corrections of errors and should be accounted for in the period of the change (and future periods, if affected). Future changes to amounts recognised in the financial statements that result from new information or more experience would generally be treated as changes in accounting estimates.

In applying their judgement, entities may wish to consider IFRIC 23 *Uncertainty over Income Tax Treatments*. Although IFRIC 23 was not specifically developed to deal with tax law changes or the current coronavirus pandemic in mind, it provides helpful guidance that entities may wish to consider in accounting for the uncertainties that exist with respect to their tax positions in light of any changes in legislation. It requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity concludes that the position is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes.

Substantively enacted or not

In some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment. In such circumstances, tax assets and liabilities are measured using the announced tax rate. However, this is not always the case and an entity would need to consider when the tax concessions (e.g., reduced tax rates) become substantively enacted in their jurisdiction, for example, by considering the legislative process and consensus in its jurisdiction for when a law becomes substantively enacted.

Recognition

Conditions attached to tax relief

Some governments might structure their tax relief so it applies only to entities who have been impacted by the coronavirus pandemic based on certain qualifying criteria, for example, only entities in certain sectors, or entities of a certain size (e.g., by revenue), or that have suffered a certain amount of economic impact. This may give rise to uncertainty and the need for entities to make judgements and estimates when assessing their income tax position, for example, whether for that taxation period, the entity will fall below the revenue threshold in order to receive the tax concession. Entities will need to determine whether it is probable that the taxation authority will accept their position. If not, IFRIC 23 requires entities to assess whether to recognise any additional liability for uncertain tax positions. The same requirement applies to recognition of uncertain tax assets.

Tax credits

Tax relief may come in the form of tax credits. Tax credits are not defined within IFRS, and entities need to exercise judgement in determining how the receipt of a tax credit should be accounted for, as a reduction in tax liability under IAS 12, or the receipt of a government grant under IAS 20, when it is structured as a cash payment or has other indicators of a grant such as non-tax related conditions being attached to it (for example, cash spend on approved research and development related activities). A tax credit to be treated in accordance with IAS 12 will have indicators such as reducing income taxes payable (being forfeited or deferred if there are insufficient taxes payable) and having few, if any, non-tax conditions attached to it. A tax credit to be treated in accordance with IAS 20 will often be directly settled in cash in the case of insufficient taxes payable and have non-tax conditions attached. In any case, all facts and circumstances relating to the specific relief need to be considered in assessing the substance of the arrangement.

Taxable temporary differences related to investments

IAS 12 requires a deferred tax liability to be recognised for all taxable temporary differences associated with investments (both domestic and foreign) in subsidiaries, branches and associates or interests in joint arrangements, unless:

- The parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference
- It is probable that the temporary difference will not reverse in the foreseeable future

In our view, IAS 12 requires the group to make provision for the taxes payable on the retained profits of the group as at each reporting date based on the best evidence available to it at the reporting date. Therefore, if an entity's expectations regarding intragroup dividends have changed, it will need to update the above assessment for the new information.

Measurement

Current and deferred tax balances

Many governments announced tax stimulus packages since early 2020. This would not impact the measurement of current tax balances and deferred tax

balances as at 31 December 2019. Some tax concessions such as tax rate reductions could relate to prior years. Because IAS 12 states that these balances are to be measured in accordance with the rates and laws that had already been substantively enacted as at reporting date, any impacts relating to prior taxation years would only be recorded in the financial period in which the amending legislation was substantively enacted.

Entities with reporting periods ended or ending in 2020 need to consider if the tax concessions announced are substantively enacted prior to reporting period end. As noted earlier, entities need to consider what is generally understood as 'substantively enacted' in their own jurisdiction. If determined to be substantively enacted by reporting date, then current tax balances and deferred tax balances would be measured based on the tax incentives including reduced tax rates under the stimulus package.

In cases where the tax concessions are staggered over several years, such as incremental tax rate reductions, the expected timing of the reversal of deferred tax balances will also need to be assessed.

Carry forward of tax losses

In assessing the probability of the future realisation of carry forward tax losses, entities will need to consider whether the adverse economic conditions arising as a result of the coronavirus pandemic existed as at reporting date. If so, the entity will need to consider the deterioration of the economic outlook in its forecasts of taxable profits and reversals of taxable temporary differences. If not, the event is non-adjusting, but the entity should consider disclosure around the nature of the subsequent event.

Disclosure

In addition to subsequent event disclosures, the following will also be relevant for entities impacted by the coronavirus pandemic: an explanation of changes in the applicable tax rate compared to the prior period; the amount and expiry date of any carry forward tax losses; and the nature of evidence supporting the recognition of deferred tax assets when the entity has suffered a loss in the current period. The entity should also consider disclosure of the nature of any significant judgements or estimates made when determining the appropriate accounting for the matters described above. Such judgements may include whether the tax laws were substantively enacted as of reporting date, and the determination of the accounting for income tax credits.

How we see it

Entities need to determine whether changes to tax rates and laws as part of government responses to the coronavirus pandemic, were substantively enacted as of the reporting date. The characteristics of any tax relief or rebates received by the government need to be carefully assessed in order to determine whether they should be accounted for as a reduction to the income tax expense, or the receipt of a government grant. Uncertainties relating to income taxes arising from these new government measures will require entities to consider whether they should recognise and measure current and/or deferred tax assets or liabilities at a different amount.

8. Liabilities from insurance contracts

IFRS 4 requires an entity issuing insurance contracts to account for its rights and obligations from the insurance contracts that it issues. The current coronavirus pandemic could affect an entity's liabilities for issued insurance contracts for a range of product lines. For example, entities issuing life or health products may be faced with claims caused by the impact of the pandemic on policyholders' health status. Entities may also be affected by claims where cover is provided for events driven by the disruption caused by the pandemic, for example, business interruption insurance, event cancellation insurance, travel insurance and credit insurance. However, since coronavirus is a new disease, contractual terms may not be clear on whether policyholders can claim against the insurer and may require further interpretation (e.g., whether the coronavirus pandemic gives rise to *force majeure* and the possible impact of such a qualification). Also, entities need to consider any interpretations, directives or rulings by local authorities (e.g., government, regulator or health agency) that could impact the obligations under the contract for the entity, for example, guidance issued by the local regulator on how to treat customers fairly within the context of the current circumstances.

Measurement

Entities issuing insurance contracts will, therefore, need to assess the impact the coronavirus, or the disruption caused by the pandemic, to their insurance liabilities based on their specific accounting policies, including the effect on the liability adequacy testing of the insurance liabilities.

Entities issuing insurance contracts will therefore need to assess the impact of the coronavirus, or the disruption caused by it, on their insurance liabilities based on their specific accounting policies. This includes the effect on the liability adequacy testing of the insurance liabilities (including related deferred acquisition costs and intangibles, such as those arising from insurance contracts acquired in a business combination or portfolio transfer).[2] This assessment would need to consider factors including, but not limited to, the effect on reported claims, the effect on incurred but not (enough) reported claims, the impact of these effects on the assumptions for estimating expected future claims, and the impact on the entity's claims handling expenses. Where the entity reinsured risk from its insurance contracts, it should also consider the associated recovery through its asset from reinsurance contracts held.[3] In determining these effects, the entity should consider not only the terms and conditions of its insurance contracts, but also the implications of any interpretations, directives or rulings by local authorities for those terms and conditions (see above). Where an entity's accounting policies for the measurement of its insurance liabilities may also involve the use of current estimates of market variables, for example, interest rates and equity prices, the entity should reflect the impact of market developments on these variables in its measurement. This impact includes the effects of results from related investments on the valuation of the insurance liabilities through profit sharing and shadow accounting mechanisms.

[2] Several intangible assets such as value in force, value of distribution agreements and possible deferred participation reserve (if in an asset position) may require additional evaluation of their recoverability.

[3] Reimbursement rights of policyholders, other than the situation of a reinsurance contract held by a cedant, is covered in section 10, Insurance recoveries, of this publication.

Entities should also assess whether the coronavirus gives rise to events after the reporting period and determine the implications for the financial statements. As the coronavirus pandemic continues to evolve, situations and conditions are changing rapidly, entities with a reporting date for their interim or annual financial statements of mid 2020 (e.g., 30 June 2020) would face significant challenges when considering the events after the reporting date. Insurers are required to perform a careful analysis of the nature and impact of these subsequent events to determine if they are adjusting or non-adjusting in accordance with IAS 10 *Events after the Reporting Period* (see section 16). Also refer to section 4 for considerations on the accounting for financial assets under IAS 39 by insurance companies.

Disclosure

Entities will need to disclose the assumptions used to make their estimates, highlight the uncertainties and explain the sensitivities of the measurement of the insurance liabilities if alternative assumptions were used, explaining how these are influenced by incorporating consequential effects of the coronavirus. Other disclosure items, like insurance risk concentrations, claims developments, credit risk and market risk may be affected as well. Entities should also consider the implications on capital disclosures as capital ratios may come under pressure due to a fall in asset values and stressed capital requirements.

Even though the full extent of the impact on insurance entities may not be clear and a number of uncertainties around the impact may remain, disclosure explaining these uncertainties and possible effects will be needed. Such disclosure would need to include an explanation of events that happened after the reporting date, for any events that relate to conditions that existed at the end of the reporting period, as well as for events that relate to conditions that arose after the reporting period.

How we see it

The coronavirus pandemic will affect insurance entities as they deal with the effect of events on the insurance cover they provide, ranging from coverage provided in relation to changes in health status of policyholders due to the wide spread of the disease, to coverage for events related to disruption caused by the coronavirus pandemic. However, the impact on insurance entities is expected to be much broader than the effect on the accounting for insurance liabilities as the current situation raises various challenges for insurers. For example, entities would have to identify and monitor new risks, and determine the magnitude of their impact on the insurance business. Entities would also have to deal with the impact of the developments on financial markets on their asset liability management strategies.

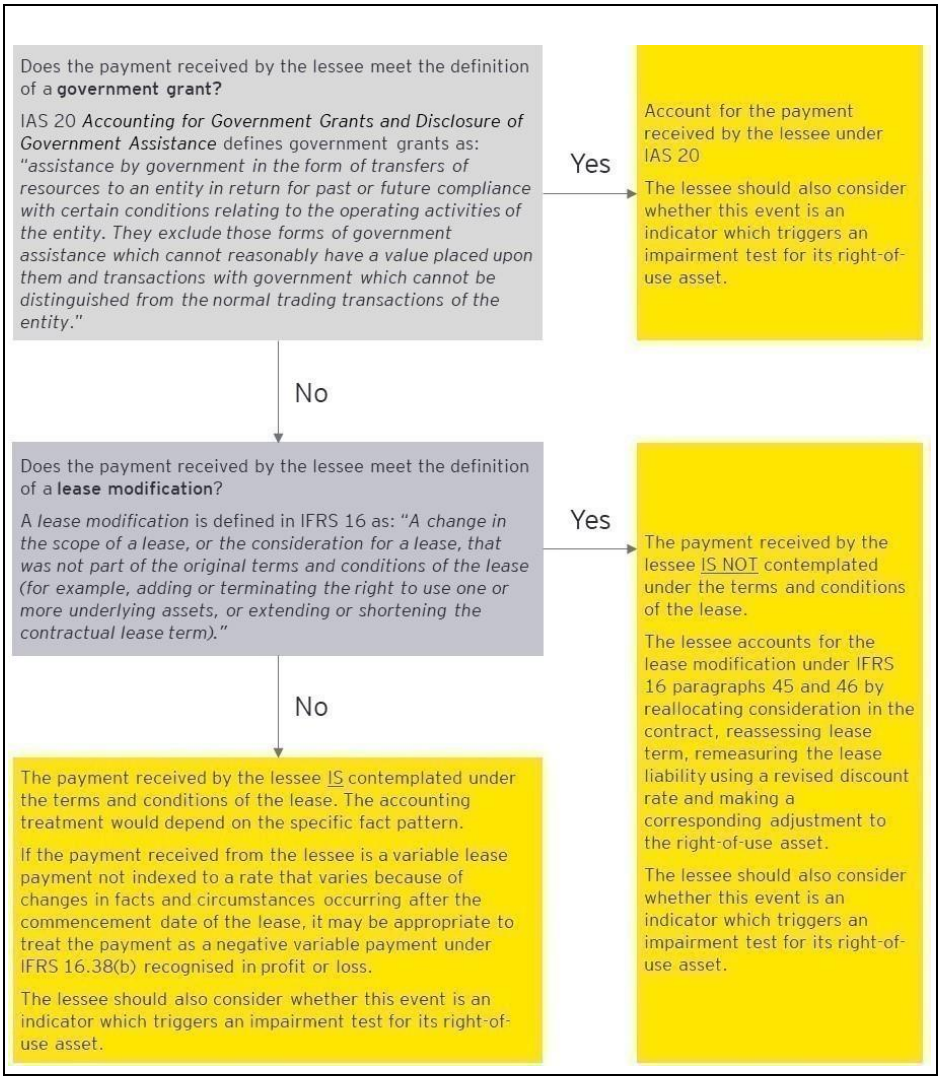
Given the rapid developments and extent of measures taken to contain the effects of the coronavirus pandemic, insurance entities should anticipate uncertainty over the impact on their insurance liabilities in the coming period, and will need to monitor developments closely and determine whether these developments have an impact on the accounting for their insurance liabilities.

9. Leases

Lessee's assessments of payments received (or receivable)

When payments are received by a lessee, it is necessary to evaluate whether IFRS 16 *Leases* applies to such payments. In some jurisdictions, local authorities have implemented policies to provide subsidies to lessees and others in order to support the local economy and these payments are accounted for under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Refer to section 6 for a discussion on the related accounting considerations.

Figure 1: Lessee's assessment of payments received (or receivable)



IASB document on lease modifications

A lease modification is a change to the scope or consideration that was not part of the original terms and conditions of the lease.

In April 2020, the IASB released a document, prepared for educational purposes, highlighting requirements within IFRS 16 and other IFRS standards that are relevant for entities considering how to account for rent concessions granted as a result of the coronavirus pandemic. The document does not change, remove, nor add to, the requirements in IFRS standards and the intention is to support the consistent and robust application of IFRS 16. The document explains how an entity evaluates whether a rent concession constitutes a lease modification, which is defined under IFRS 16 as a change

in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. The document applies to both lessees and lessors.

A change in the scope of a lease

In assessing whether there has been a change in the scope of a lease, an entity considers whether there has been a change in the right of use conveyed to the lessee by the contract. A change in the scope of a lease includes adding or terminating the right to use one or more underlying assets or extending or shortening the contractual lease term. A lease payment deferral, lease payment holiday or lease payment reduction alone is a change in consideration for a lease and is not, in isolation, a change in the scope of a lease.

A change in the consideration for a lease

In assessing whether there has been a change in the consideration for a lease, an entity considers the overall effect of any change in the lease payments. For example, a lessor-granted concession may allow a lessee not to make lease payments for a three-month period, but the lease payments for periods thereafter are increased proportionally in a way that means that the consideration for the lease is unchanged. Such a lease payment deferral, with no change in the total consideration for the lease, or the scope of the lease, would not be a lease modification. We believe that increases to subsequent lease payments to take account solely of the time value of money would not be a substantive change in the consideration for the lease. For example, if a lessor deferred a lease payment for June 2020 and required it to be paid in January 2021 plus an interest charge at a rate to reasonably compensate the lessor for the time value of money, that would not be a substantive change in the consideration for the lease. However, other changes in the consideration for a lease (e.g., a substantive forgiveness of rents payable/receivable) would be a change in the consideration for a lease.

A change that is, or is not, part of the original terms and conditions of the lease

An entity considers all relevant facts and circumstances to evaluate whether a change is a lease modification.

When evaluating if there has been a change in either the scope of, or the consideration for, the lease, an entity is required to consider the terms and conditions of contracts and all relevant facts and circumstances, including the applicable law governing such contracts. When a lessee and lessor agree to a change to a lease that is not contemplated by the original terms and conditions of the lease, the change is accounted for as a lease modification. In this case, lessees would follow paragraphs 44 to 46 of IFRS 16 (if the amendment to IFRS 16 discussed below is not applied) and lessors would consider the guidance in paragraphs 79 and 80 of IFRS 16 (for finance leases) or paragraph 87 of IFRS 16 (for operating leases).

However, if a change is limited solely to the changes contemplated in the existing terms and conditions of the lease, there is no lease modification for the purposes of IFRS 16.

Entities should carefully consider terms in their contracts as they may contain clauses (e.g., a *force majeure* clause) that result in changes to lease payments if particular events occur or circumstances arise. For example, a contract may include a clause providing the lessee with a right to reduced lease payments upon government action requiring the closure of retail stores for a period of

time. Changes in lease payments that result from clauses in the original contract (or in applicable law) would not be lease modifications for the purposes of IFRS 16. The accounting consequences of this are considered below under the heading, "Accounting for rent concessions that are not accounted for as lease modifications". Please refer to our publication, *Applying IFRS: Accounting for COVID-19 related rent concessions (Updated February 2021)* for further details.

Amendment to IFRS 16

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases* (the amendment). The Board amended the standard to provide optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic. The amendments do not apply to lessors.

In providing the relief, the Board acknowledged that "... lessees could find it challenging to assess whether a potentially large volume of covid-19 related rent concessions are lease modifications and, for those that are, to apply the required accounting in IFRS 16, especially in the light of the many challenges lessees face during the pandemic."[4]

The objective of the amendment is to provide lessees that have been granted coronavirus-pandemic related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

As a practical expedient, a lessee may elect not to assess whether a coronavirus-pandemic related lease concession from a lessor is a lease modification.

As a practical expedient, a lessee may elect not to assess whether a coronavirus-pandemic related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying change in lease payments resulting from the coronavirus-pandemic related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. A lessee may elect to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, as specified in paragraph 2 of IFRS 16.

The practical expedient applies only to rent concessions occurring as a direct consequence of the coronavirus pandemic and only if all of the following conditions described in IFRS 16 paragraph 46B are met:

- 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.
- 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 before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

In the Basis for Conclusions to the amendment, paragraph BC205D(a) states that, "The Board was of the view that a rent concession that increases total payments for the lease should not be considered a direct consequence of the covid-19 pandemic, except to the extent the increase reflects only the time

[4] IFRS 16.BC 205B

value of money." Therefore, a rent concession that defers payments to a future date and increases those payments to reflect the time value of money would be in the scope of the practical relief, provided all the other conditions were met.

The IASB further explained[5] that qualitative and quantitative factors are considered in assessing whether there are no substantive changes to other terms and conditions of the lease. Other substantive changes beyond providing a coronavirus-pandemic related rent concession, such as introducing or withdrawing extension, termination or purchase options, would make the entire modification to the lease ineligible to qualify for the relief provided by the practical expedient. Conversely, under the amendment, a change in the lease term, such as a three-month rent holiday before 30 June 2021 followed by three additional months of substantially equivalent payments at the end of the lease, would not constitute a substantive change to other terms and conditions of the lease.

Lessees apply the practical expedient 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. In the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the amount of the adjustment for each financial statement line item affected and earnings per share required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

A lessee applies the 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 28 May 2020.[6]

Proposal to further amend IFRS 16

In light of the fact that the coronavirus pandemic has continued beyond the period envisaged when the amendment was issued, the Board is proposing to update the condition to apply the relief to a change in lease payments originally due on or before 30 June 2022 from 30 June 2021. If finalised, this amendment is expected to apply to annual reporting periods beginning on or after 1 April 2021. Earlier application will be permitted, including in financial statements not yet authorised for issue at the date the amendment is issued.

Under the proposal, lessees would apply this amendment retrospectively, recognising the cumulative effect of initially applying this 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 this amendment. In the reporting period in which a lessee first applies this amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8.

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[5] IFRS 16.BC 205D(c)

[6] This refers to the application date in IFRS 16. Local endorsement requirements may impact when the amendment can be applied in particular jurisdictions.

In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances. Therefore, lessees that have already applied the practical expedient to certain types of contracts will be required to apply this scope extension retrospectively.

Accounting for rent concessions that are not accounted for as lease modifications

The amendment to IFRS 16 does not provide explicit guidance about how a lessee accounts for a rent concession when applying the practical expedient. It states that a lessee making the election accounts for any change in lease payments resulting from the coronavirus-pandemic related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

There are several potential approaches for accounting for a rent concession that is not accounted for as a lease modification.

We believe there are several potential approaches for accounting for a rent concession which is not accounted for as a lease modification, including:

- Accounting for a concession in the form of forgiveness or deferral of lease payments, as a negative variable lease payment (Approach 1)
- Accounting for a concession in the form of forgiveness or deferral of lease payments, as a resolution of a contingency that fixes previously variable lease payments (Approach 2)
- Accounting for a concession in the form of a deferral of payments as if the lease is unchanged (Approach 3)

Accounting for a concession, in the form of forgiveness or deferral of lease payments, as a negative variable lease payment (Approach 1)

When a lessor grants a concession that contractually releases a lessee from certain lease payments or defers lease payments, we believe a lessee may account for the concession as a negative variable lease payment. In this case, the lessee would remeasure the remaining consideration in the contract and, if the contract contains multiple lease and non-lease components, reallocate the consideration to the lease and non-lease components (using unchanged allocation percentages). The lessee would also not update the discount rate used to measure the lease liability. In this case, the lessee would recognise the allocated portion of the forgiven payments as a negative variable lease expense in the period when changes in facts and circumstances on which the variable lease payments are based occur. This approach is similar to that used by the lessor to recognise variable lease income.

Accounting for a concession in the form of forgiveness or deferral of lease payments as a resolution of a contingency that fixes previously variable lease payments (Approach 2)

We believe that a lessee may account for a rent concession in the same manner as it would account for a resolution of a contingency that fixes previously variable lease payments. In this case, the lessee would remeasure the remaining consideration in the contract and, if the contract contains multiple lease and non-lease components, reallocate the consideration to the lease and non-lease components (using unchanged allocation percentages). The lessee would also not update the discount rate used to measure the lease liability. Therefore, the

lessee would remeasure its lease liability, using the remeasured consideration (e.g., reflecting the lease payment reduction or lease payment deferral provided by the lessor), with a corresponding adjustment to the right-of-use asset.

Accounting for a concession in the form of a deferral of lease payments as if the lease is unchanged (Approach 3)

When a lessor permits a lessee to defer a lease payment, we believe the lessee may account for the concession by continuing to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease and recognising a separate lease payable (that generally does not accrue interest) in the period that the allocated lease cash payment is due. In this case, the lessee would reduce the lease payable when it makes the lease payment at the revised payment date.

This approach of recording a lease payable for the future payment would allow the lease liability to be accreted using the original incremental borrowing rate and would result in a lease liability balance of zero at the end of the lease term (i.e., the lessee would not need to revisit the accretion of its lease liability based on the revised timing of payments). In many cases, this will allow a lessee to use its existing systems to account for the lease liability using the existing payment schedule and discount rate.

Please refer to our publication Applying IFRS: Accounting for COVID-19 related rent concessions (Updated February 2021) for illustrations of these approaches and further details.

How we see it

There are many different forms of rent concessions obtained by lessees. Therefore, lessees need to evaluate the details of the rent concession granted carefully to determine an appropriate accounting approach. It is possible for more than one approach to be acceptable.

Accounting for lease modifications

Lessee consideration

Lessees generally account for rent concessions as a lease modification when the definition of a lease modification is met and the amendment to IFRS 16 is not applied. However, in circumstances involving a voluntary forgiveness of a lease liability granted by the lessor without other changes to the lease, it might also be reasonable for the lessee to account for such rent concession as a (partial) derecognition of a lease liability applying paragraph 3.3.1 of IFRS 9 *Financial Instruments* with a credit to profit or loss (i.e., rather than applying the IFRS 16 amendments or the IFRS 16 lease modification guidance). Therefore, diversity in practice may exist in this situation and it is important to consider the perspective of the local regulator. Lessees should apply their policy (i.e., to apply IFRS 16 or IFRS 9) consistently to contracts with similar characteristics and in similar circumstances.

A lease modification that increases the scope of the lease and increases the consideration by an amount commensurate with the stand-alone price is

accounted for as a separate lease. This is discussed further in our publication, *Applying IFRS: A closer look at IFRS 16 Leases*.

For a lease modification that is not accounted for as a separate lease, a lessee applies modification accounting at the effective date of the lease modification.[7] In such a case, a lessee allocates the consideration in the modified contract to the lease and non-lease components (where applicable), determines the lease term of the modified lease and remeasures the lease liability by discounting the revised lease payments using a revised discount rate determined on that date. The revised discount rate is the rate of interest implicit in the lease for the remainder of the lease term, or if that rate cannot be readily determined, the lessee's incremental borrowing rate.

A lessor accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

If the modification decreases the scope of the lease (e.g., a change that reduces total leased space or shortens the lease term), the lessee remeasures the lease liability and reduces the right-of-use asset to reflect the partial or full termination of the lease (e.g., a 50% reduction in leased space would reduce the right-of-use asset by 50%). Any difference between those two adjustments is recognised in profit or loss at the effective date of the modification. For all other modifications, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset, without affecting profit or loss.[8]

How we see it

When applying the requirements of IFRS 16 without applying the amendment, the modification of the lease often requires the remeasurement of the lease liability using a revised discount rate. Given that the interest rate implicit in the lease is generally not readily determinable by the lessee, it is often necessary for the lessee to determine a revised incremental borrowing rate, which may be practically difficult, particularly when an entity has been granted many lease concessions by various lessors across many jurisdictions

Lessor consideration

Lessor accounting for lease modifications depends on the classification of the lease.

A lessor accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

A lease modification to a finance lease that increases the scope of the lease and increases the consideration by an amount commensurate with the stand-alone price, is accounted for as a separate lease[9]. For a modification to a finance lease that is not accounted for as a separate lease:

- If the lease would have been classified as an operating lease, had the modification been in effect at the lease inception date, the lessor accounts

[7] Under IFRS 16, the effective date of modification is defined as the date when both parties agree to a lease modification.
[8] For additional examples of accounting for lease modifications by a lessee, see *Applying IFRS: A closer look at IFRS 16 Leases*.
[9] This is discussed further in *Applying IFRS: A closer look at IFRS 16 Leases.*

for the lease modification as a new lease from the effective date of the modification and measures the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

- Otherwise, the lessor accounts for the net investment in the lease in accordance with IFRS 9.

Please refer to our publication series on *Applying IFRS: Accounting for covid-19 related rent concessions* for illustrations and further details.

Collectability considerations for lessors

Many lessees may face financial difficulties due to government-mandated closure of businesses. This may cause a significant deterioration in collectability of lease payments from certain lessees.

Unlike other standards such as IFRS 15, IFRS 16 does not refer to collectability to determine whether (and when) lease income should be recognised. We believe that a lessor may continue to recognise operating lease income even when collectability is not probable. However, other approaches may also be appropriate when there is significant doubt about collectability. Therefore, there could be diversity in practice and it is important to consider the view from the local regulator. Regardless of the approach followed, IFRS 9's guidance on credit losses continues to be applicable to recognised lease receivables[10].

Under IFRS 16, a lessor of a finance lease is required to apply the impairment requirements in IFRS 9 to the net investment in the lease.

[10] Please refer to our publication *Applying IFRS: Accounting for covid-19 related rent concessions* for an illustration.

10. Insurance recoveries

Requirements

A reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

In accordance with IAS 37, where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount of the provision is not reduced by any expected reimbursement. Instead, the reimbursement is treated as a separate asset and the amount recognised for the reimbursement asset is not permitted to exceed the amount of the provision.

A contingent asset is defined as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. An entity does not recognise a contingent asset because this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. A contingent asset is subject to disclosure where an inflow of economic benefits is probable. An entity needs to continually assess its contingent assets to ensure that developments are appropriately reflected in the financial statements. If an inflow of economic benefits has become probable (when, previously, it was possible but not probable), an entity is required to disclose the contingent asset. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Recognition

An entity may experience a loss related to the coronavirus pandemic. For example, as a result of the shutdown of its production facilities as required by the local government, an entity continues to incur expenses for staff costs, rent and property taxes. Entities often enter into insurance policies to reduce or mitigate the risk of loss arising from business interruption or other events.

The accounting for insurance claims will differ based on a variety of factors, including the nature of the claim, the amount of proceeds (or anticipated proceeds) and the timing of the loss and corresponding insurance recovery. In addition, any accounting for insurance proceeds will be affected by the evaluation of coverage for that specific type of loss in a given situation, as well as an analysis of the ability of an insurer to satisfy a claim.

In some instances, it may be clear that the recognition threshold for the reimbursement is met when the reimbursable expense is incurred. In other instances, a careful analysis of the terms and conditions of an entity's business interruption policies is required due to the wide variety of terms relating to the nature and level of losses covered. Some policies covering lost revenue or operating margins that typically are measured over a longer term require comparisons with similar periods in prior years. In such cases, no compensation would be available if revenue or operating margins recover during the measurement period that is set under the terms of the insurance policy. For example, a claim under a policy with a quarterly measurement period would not

be valid if a retailer were to lose an entire month's revenue, but recover that revenue before the end of the quarter.

Decisions about the recognition (and measurement) of losses are made independently of those relating to the recognition of any compensation that might be receivable. It is not appropriate to take potential proceeds into account when accounting for the losses.

IAS 37 prohibits the recognition of contingent assets. In such a situation, the recognition of the insurance recovery will only be appropriate when its realisation is virtually certain, in which case, the insurance recovery is no longer a contingent asset. 'Virtually certain' is not defined in IAS 37, but it is certainly a much higher hurdle than 'probable' and, indeed, more challenging than the term 'significantly more likely than probable' in Appendix A of IFRS 5 *Non-current assets held for sale and discontinued operations*.[11] It is reasonable to interpret 'virtually certain' to be as close to 100% as to make any remaining uncertainty insignificant. In practice, this means that each case must be assessed on its own merits. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

If a previously unlikely receipt becomes probable, but it is still a contingent asset, it will only be disclosed. This assessment extends to the analysis of information available after the end of the reporting period and before the date of approval of the financial statements. In applying IAS 10, an asset is recognised only if the information about the insurance recovery, that becomes available in the subsequent period, provides evidence of conditions that existed at the end of the reporting period and its realisation was virtually certain at that time. For example, the later receipt by the entity of confirmation from the insurer that its insurance policy does cover this type of loss would provide evidence of cover as at the end of the reporting period.

Measurement

Once it is established that it is virtually certain that the entity will be compensated for at least some of the consequences of the coronavirus pandemic under a valid insurance policy, any uncertainty as to the amount receivable should be reflected in the measurement of the claim.

Presentation

'Netting off' is not allowed in the statement of financial position, with any insurance reimbursement asset classified separately from any provision. However, the expense relating to a provision can be shown in the income statement net of any corresponding reimbursement.

In accordance with IAS 7 *Statement of Cash Flows*, cash flows from operating activities are described as cash flows from the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. If the insurance proceeds are related to business interruption, the corresponding cash flows are classified as operating cash flows.

[11] According to paragraph 23 of IAS 37, an event is regarded as probable if the event is more likely than not to occur.

How we see it

The terms and conditions of an insurance policy are often complex. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

Once it is established that it is virtually certain that the entity will be compensated for at least some of the consequences of the coronavirus pandemic under a valid insurance policy, any uncertainty as to the amount receivable should be reflected in the measurement of the claim.

11. Onerous contract provisions

If an entity has a contract that is onerous, IAS 37 requires the entity to recognise and measure the present obligation under the contract as a provision.

Requirements

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. If an entity has a contract that is onerous, IAS 37 requires the entity to recognise and measure the present obligation under the contract as a provision. Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract. See section 5 for further details on impairment considerations.

Recognition

One significant impact of the coronavirus pandemic is the disruption to the global supply chain. For example, when a manufacturing entity has contracts to sell goods at a fixed price and, because of the shutdown of its manufacturing facilities, as required by the local government, it cannot deliver the goods itself without procuring them from a third party at a significantly higher cost, the provision for the onerous contract will reflect the lower of the penalty for terminating the contract or the present value of the net cost of fulfilling the contract (i.e., the excess of the cost to procure the goods over the consideration to be received). Contracts should be reviewed to determine if there are any special terms that may relieve an entity of its obligations (e.g., *force majeure*). Contracts that can be cancelled without paying compensation to the other party do not become onerous as there is no obligation.

How we see it

In assessing the unavoidable costs of meeting the obligations under a contract at the reporting date, entities, especially those with non-standardised contract terms, need to carefully identify and quantify any compensation or penalties arising from failure to fulfil it.

12. Fair value measurement

The objective of fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e., to estimate an exit price). The impact on fair value measurement (FVM) arising from the coronavirus pandemic and the ensuing economic and market disruptions varies across countries, markets and industries. Uncertainty is likely to continue, even as some jurisdictions begin to ease the restrictions and open up their economies. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of possible estimates of FVM, the entity is required to apply judgement to determine the point within that range that is most representative of FVM in the circumstances.

Below are certain key FVM considerations within IFRS 13 *Fair Value Measurement* that can help entities navigate challenges in the context of volatile and uncertain markets.

The definition of fair value contemplates an orderly transaction, which is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities and it is not a forced transaction (e.g., a forced liquidation or distress sale). While volatility in the financial markets may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly. Evidence of whether a transaction is orderly must be evaluated when deciding the weight that is placed on the transaction price when estimating FVM or market risk premiums. If the observed price is based on a transaction that is determined to be forced or disorderly, little, if any, weight should be placed on it compared with other indications of value.

IFRS 13 makes clear that fair value is a market-based measurement, not an entity-specific measurement, and notes that the reporting entity's intention to hold an asset or liability in a market downturn is not relevant.

The determination of whether a transaction is orderly is made at the individual transaction level and requires the use of judgement based on the available evidence from all relevant factors. While market factors such as an imbalance in supply and demand and liquidity constraints can affect the prices at which transactions occur in a given market, such an imbalance does not automatically indicate that the parties to a transaction were not knowledgeable and willing market participants or that a transaction was not orderly. The entity's conclusion that it would not sell its own asset (or transfer its own liability) at prices currently observed in the market does not mean these transactions should be presumed to be distressed. IFRS 13 makes clear that fair value is a market-based measurement, not an entity-specific measurement, and notes that the reporting entity's intention to hold an asset or liability in a market downturn is not relevant.

An active market is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The level of activity of a market is determined based on the weight of available evidence, such as the number of transactions taking place, widening bid-ask spreads and significant increases in implied liquidity risk premiums. IFRS 13 is clear that, while observable prices from inactive markets may not be representative of fair value in all cases, this data should not be ignored. Additional analysis is required in these instances to assess the relevance of observed transactions or quoted prices in these markets, including analysis to determine whether the transaction is orderly (as discussed above) and factors specific to the asset or liability being measured, as well as facts and circumstances surrounding the price (e.g., size of the transaction, proximity of the transaction to the measurement date and significant developments of the subject and market conditions between these dates). If the quoted price is based on a transaction that is determined to be orderly, this data point should be considered in the estimation of fair value, albeit adjustments to observable prices (which could be significant) may be necessary or the weight placed on that price in the FVM changed.

Even if there is significant decrease in the volume of transactions, a market may still be active and relevant prices or inputs observed from orderly transactions in that market must still be considered.

A significant decrease in volume or activity in a market can also influence which valuation technique(s) are used, how those techniques are applied and whether inputs are observable at the measurement date. For example, the application of the market approach can prove more challenging and the use of additional valuation techniques may be warranted. Such additional valuation techniques may need the use of unobservable inputs and would need to be calibrated to the initial transaction price (if determined to represent fair value) to ensure that the valuation technique reflects market conditions. These can also impact the categorisation of the FVM within the fair value hierarchy and changes thereto (e.g., transfer from Level 2 to Level 3 if unobservable inputs are significant to the FVM) that will drive the nature and extent of disclosures required by IFRS 13.

In addition, a significant decrease in the volume of transactions does not automatically imply that a market is no longer active. Despite a decrease from recent (or historical) levels of activity, transactions for an asset or liability in that market may still occur with sufficient frequency and volume to provide pricing information on an ongoing basis, such as an equity security traded on a public exchange. Where there is an active market for an identical asset or a liability at the measurement date, entities are required to use the quoted price at the measurement date in that market (i.e., Level 1 input) as the basis of FVM without adjustment. This is required even where higher volatilities are experienced in an active market near to the measurement date.

IFRS 13's fair value hierarchy requires valuation techniques to maximise the use of observable inputs from orderly transactions and minimise the use of unobservable inputs. Consequently, even if the market for an asset has become less liquid due to the current environment, relevant prices or inputs observed from orderly transactions in these markets must still be considered. It would be inappropriate for an entity to default solely to a model's value based on unobservable inputs such as income approach that uses only an entity's own inputs (a Level 3 measurement), when Level 2 (observable) information, such as recent transacted prices, is available. Judgement is required in assessing the relevance of observable market data and whether they reflect orderly

transactions, particularly in situations where there has been a significant decrease in market activity for an asset or liability.

How we see it

IFRS 13 provides relevant guidance on FVM of assets and liabilities in markets that have experienced significant volatilities or reduction in volume or activity, which are particularly relevant in this current environment. The application of this guidance to arrive at a reasonable estimate of FVM requires significant management judgement and hinges on the robustness of the entity's FVM determination and review processes.

In certain cases, the changes to the existing valuation techniques and valuation adjustments required in response to the current market conditions may warrant assistance from external valuation specialists who possess the necessary expertise, experience and market knowledge.

Providing transparency over the techniques, key assumptions and inputs used in determining fair value, including the sensitivities by providing disclosures required by IFRS 13, is an integral part of FVM and is key to enhancing the usefulness of financial reporting in this unprecedented time.

13. Revenue recognition

The coronavirus pandemic could affect various aspects of an entity's revenue accounting under IFRS 15 *Revenue from Contracts with Customers*. Refer to our publication, *Applying IFRS: A closer look at IFRS 15, the revenue recognition standard*, which includes more information about each of the following topics.

Variable consideration

Estimates of variable consideration in new and ongoing customer contracts will need to be evaluated considering current circumstances.

Estimates of variable consideration in new and ongoing customer contracts will need to be evaluated considering current circumstances. Examples of variable consideration estimates that may have changed due to the pandemic include expectations about returns of goods, contract volumes and whether an entity will meet contractual conditions for performance bonuses or penalties.

When a contract with a customer includes variable consideration, an entity is generally required to estimate, at contract inception, the amount of consideration to which it will be entitled in exchange for transferring promised goods or services. The amount of variable consideration an entity may include in the transaction price is constrained to the amount for which it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainties related to the variability are resolved.

An entity that makes such an estimate at contract inception is also required to update the estimate throughout the term of the contract to depict conditions that exist at each reporting date. This will involve updating the estimate of variable consideration (including any amounts that are constrained) to reflect an entity's revised expectations about the amount of consideration to which it expects to be entitled, considering uncertainties that are resolved or new information about uncertainties related to the coronavirus pandemic.

Changes to the transaction price that relate to a change in estimates of variable consideration (and are not a result of contract modifications, which are discussed below) are generally allocated to the performance obligations in the contract on the same basis as their initial allocation. That is, they are allocated based on the relative stand-alone selling price (i.e., using the same proportionate share of the total as in the initial allocation) or they are allocated to individual performance obligations under the variable consideration allocation exception. Any amounts allocated to satisfied (or partially satisfied) performance obligations are recognised as revenue in the period in which the transaction price changes (i.e., on a cumulative catch-up basis). This could result in either an increase or decrease in revenue in relation to a satisfied performance obligation or in cumulative revenue recognised for a partially satisfied over-time performance obligation. Entities using the variable consideration allocation exception should also consider whether they can continue to apply this exception.

Contract modifications and terminations

Uncertainties related to the coronavirus pandemic and current market conditions could also prompt entities to modify contracts with customers. Customers and entities may also be more likely to terminate contracts (either fully or partially), which is also a form of contract modification under IFRS 15. A contract modification occurs when the parties to a contract agree to amend the

scope or price (or both) of a contract and the amendments either create new, or change existing, enforceable rights and obligations of the parties.

An entity accounts for the modification under the requirements in paragraphs 18-21 of IFRS 15. Under these requirements, certain modifications are treated as separate stand-alone contracts, while others are combined with the original contract and accounted for as one contract. In addition, some modifications are accounted for prospectively, while others are accounted for on a cumulative catch-up basis.

It is generally clear when a contract modification has taken place, but, in some circumstances, that determination requires judgement. For example, an entity will need to account for a contract modification before the parties reach final agreement if the negotiations create enforceable rights and obligations. In addition, contract modifications may be implied by customary business practices as long as they either create new, or change existing, enforceable rights and obligations in the contract.

Entities also have to determine whether a new contract with an existing customer is a modification of an existing contract. We believe that, when entities make this determination, they should consider the facts and circumstances, as well as the factors included in the contract combination requirements in paragraph 17 of IFRS 15.

When an IFRS 15 contract is modified, we believe this may indicate that "a significant change in facts and circumstances" has occurred (see paragraph 13 of IFRS 15) and that the entity needs to reassess the criteria in paragraph 9 of IFRS 15 for the modified contract as well as the contract's duration (i.e., the period in which parties to the contract have present enforceable rights and obligations). The accounting for any reassessment is prospective and the reassessment would not change the conclusions associated with goods and services already transferred. That is, an entity would not reverse any receivables, revenue or contract assets already recognised under the contract because of the reassessment.

Collectability and extended payment terms

The coronavirus pandemic may impact customers' ability and intent to pay, and/or entities may be more willing to accept partial payment or extend payment terms. Entities will need to determine how to account for these circumstances. Specifically, as discussed below, entities will need to consider the effects on their IFRS 15 collectability assessments, estimates of variable consideration made at contract inception, the subsequent impairment measurement of any contract assets or trade receivables under the expected credit loss model in IFRS 9 (see section 3 on Individual and collective assessment of loans, receivables and contract assets), as well as impairment of related contract cost assets and identification of significant financing components. Entities will also need to consider whether any changes to contracts with existing customers need to be accounted for as contract modifications, as discussed above.

Collectability concerns and extended payment terms will need careful analysis and may affect whether there is a valid IFRS 15 contract, as well as revenue estimates and impairment considerations.

Entities entering into new contracts with customers will need to carefully consider their customers' ability and intent to pay. In order for an arrangement to be accounted for as a revenue contract under IFRS 15, it must be probable that the entity will collect the consideration to which it expects to be entitled in exchange for the goods or services that will be transferred to the customer. In performing this collectability assessment under IFRS 15, entities will first need to determine the transaction price in Step 3 of the model. The contract price and transaction price will differ if an entity concludes, at contract inception, that it has offered or is willing to accept a price concession (a form of variable consideration). An entity might accept a lower price than the amount stated in the contract to develop or enhance a customer relationship or the customer might have a reasonable expectation that the entity will reduce its price based on the entity's customary business practices. An entity deducts from its contract price any estimated price concessions to derive the transaction price at contract inception (i.e., the amount the entity expects to be entitled to in exchange for the goods or services that will be transferred to the customer). The IFRS 15 collectability assessment is then performed on the transaction price. An entity also has to assess any contract assets or trade receivables arising from an IFRS 15 contract under the expected credit loss model in IFRS 9.

When the amount an entity expects to collect changes after contract inception, the entity may need to exercise significant judgement to determine whether that change is due to: (1) a change in estimate of the variable consideration identified at contract inception (and, therefore, would be accounted for as a change in the transaction price); or (2) an identifiable credit event (e.g., a known or expected decline in a customer's operations, a known or expected bankruptcy filing or other financial reorganisation or the request for a concession on payment terms due to economic reasons) that would trigger a credit loss to be accounted for as an impairment loss under IFRS 9 (i.e., outside of revenue). When the terms of contracts with existing customers change, entities also need to determine whether there is a contract modification (as discussed above).

Entities will need to exercise judgement to determine whether changes in the facts and circumstances related to a customer's ability and intent to pay the consideration in the contract are significant enough to indicate that a contract no longer exists under IFRS 15 and revenue should no longer be recognised. This is because the standard requires an entity to reassess whether it is probable that it will collect the consideration to which it will be entitled when significant facts and circumstances change. Collectability concerns may also indicate that entities need to assess related capitalised costs to obtain or fulfil a contract for impairment.

Offering extended payment terms to new or existing customers may indicate that the contract includes a significant financing component. When there is a significant financing component, an entity needs to adjust the transaction price for the effects of the time value of money if the timing of payments agreed to by the parties in the contract provides the customer or the entity with a significant financing benefit.

Customer incentives

Entities may provide additional incentives, such as free goods or services or cash payments, to spur customer demand. In response to customer needs, entities may also change the pricing of their goods and services or offer to hold finished goods for customers that are unable to receive them.

The accounting for free goods and services offered to customers will depend on the facts and circumstances of the offer. An offer that creates new, or changes existing, enforceable rights and obligations of the parties to an existing contract is accounted for as a contract modification as discussed above. In some cases, an offer may not result in a contract modification and would be accounted for as a marketing offer (i.e., expense).

When an entity determines whether the offer creates new, or changes existing, enforceable rights and obligations of the existing contract with a customer, the following non-exhaustive considerations are likely to be relevant:

- Is the offer the result of negotiations with a specific customer or group of customers?
- Is the same offer available to both existing customers and counterparties that do not meet the definition of a customer?
- If an offer is only available to existing customers, is it available to a broad group of current customers (or all current customers) and not the result of an individual customer's negotiations?
- Does the entity have the right to rescind the offer?

The accounting for free goods and services offered to customers will depend on whether it is a marketing offer or a contract modification.

In addition, we believe that the accounting principles for determining when contracts have to be combined under paragraph 17 of IFRS 15 will be helpful when determining whether an offer of free goods or services to an existing customer is a contract modification.

Entities will need to identify any consideration paid or payable to a customer. This would be accounted for as a reduction of the transaction price (and, therefore, revenue) unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

Furthermore, if an entity changes the pricing of its goods and services, it will need to determine whether the stand-alone selling prices of its goods and services need to be updated for new contracts or upon certain contract modifications. Stand-alone selling prices are determined at contract inception and are not updated unless the contract has been modified (and the modification is not treated as part of the existing contract).

Entities will need to determine any effect on the timing of revenue recognition resulting from customers' requests to hold finished goods at the entity's site. Entities will need to consider the bill-and-hold requirements in paragraphs B79 – B82 of IFRS 15, which include criteria that must be met (in addition to the control indicators in paragraph 38 of IFRS 15) in order for revenue to be recognised for the sale of a good in a bill-and-hold arrangement.

Disclosure

Entities should consider whether uncertainties or changes in business practices due to the coronavirus pandemic require their revenue disclosures to be enhanced. For example, if an entity estimates variable consideration (including application of the constraint), it is required to disclose information about the methods, inputs and assumptions used. Entities are also required to disclose certain information about their performance obligations, including when performance obligations are satisfied in a bill-and-hold arrangement and significant payment terms. Entities should also consider the requirements to disclose the judgements and changes in judgements that significantly affect the determination of the amount and timing of revenue.

How we see it

Entities may need to use significant judgement to determine the effect of uncertainties related to the coronavirus pandemic on their revenue accounting, e.g., estimates of variable consideration (including the constraint) and provide appropriate disclosures. Importantly, the effects are unlikely to be limited to variable consideration. Decisions made in response to the pandemic (e.g., modifying contracts, transacting with customers with collectability concerns, revising pricing) may also have an effect on the accounting and disclosures for ongoing and future contracts.

14. Inventories

The measurement of inventories (both cost and NRV) may be affected by changes in operations and consumer demand. Judgement may be needed to determine the impact.

IAS 2 requires entities to account for inventories at the lower of cost and net realisable value (NRV), with limited exceptions (e.g., broker-traders that account for inventories at fair value less costs to sell (see fair value considerations discussed in section 12).

Determining cost

The coronavirus pandemic has required some entities to reconsider the way they do business, for example, by changing their supply chains or move sales online. Some of these changes may lead to increased expenditure and affect the cost of inventories.

For entities that manufacture or further process inventories, the cost of inventories includes an allocation of fixed production overheads that is based on the normal capacity of the production facilities. What is 'normal capacity' is based on an average over a number of periods or seasons, but it is determined under normal circumstances. Actual levels of production may be used if they approximate normal capacity. However, while entities may have been able to continue production, periods of restriction on operations (e.g., lockdown) may mean that they are not producing at normal capacity.

Some entities may have lower levels of production or an idle plant, for example, due to lower demand or forced closure during the lockdown. If production volumes are lower than the average, entities must not increase the amount of fixed overhead costs allocated to each unit of production. Rather, any unallocated overheads are recognised as an expense in the period in which they are incurred. Conversely, entities may have abnormally high production for certain products, for example due to panic-buying. In these circumstances, an entity needs to decrease the amount of fixed overhead allocated to each unit of production so that inventories are not measured above cost.

Care will also be needed to determine whether some other costs can be capitalised. Entities may, for example, incur additional costs to store inventories due to lower than usual demand. However, such costs may need to be expensed as incurred as storage costs can only be capitalised when they are necessary to the production process, before further processing. Entities may also incur wasted materials, for example, to repackage goods that were originally destined for the wholesale market for retail consumers. Entities will need to assess whether wasted materials, labour or other production costs are abnormal and, if so, they must be expensed as incurred.

Determining NRV

NRV is defined as "the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale".[12] As discussed above, the expected cost to complete inventory may have changed. Furthermore, consumer behaviour during the pandemic, and particularly during periods of lockdown, may have changed. Some entities, for example, may have seen periods of very high demand, followed by little or no demand as customers panic-buy. Other entities may have had to discount

[12] Paragraph 6 of IAS 2

goods to attract customers. These changes could lead to volatility in selling prices and affect the estimated costs to sell.

In light of continued uncertainty, estimates of NRV may be subject to more estimation uncertainty than in the past, and determining the appropriate assumptions may require significant judgement. In some cases, entities may need to write off their inventories. Entities with perishable goods, for example, may have had to dispose of goods they were unable to store or could not sell. Other entities may have to determine whether to write-down their inventories to NRV if they become wholly or partially obsolete, or if their selling prices have declined.

Disclosures

Disclosures about inventories, including the measurement bases used, assist users in understanding how transactions, events and conditions are reflected in the financial statements and the sensitivity to change. At a minimum, entities will need to disclose the amount of any write-down of inventories recognised in profit or loss, as well as any subsequent reversal of such write-downs, in annual financial statements and, if significant, in interim financial statements.[13] In addition, entities need to disclose the circumstances or events that lead to a reversal of any write-down.

How we see it

Decisions made in response to the pandemic could lead entities to reassess the cost of their inventories. Reduced demand may lead entities to write-down their inventories to NRV and determining NRV may require the use of significant judgement. Entities should carefully consider whether additional disclosures are needed to assist users of the financial statements to understand the impact of the pandemic on inventories.

[13] See paragraph 36 of IAS 2 and paragraph 15B(a) of IAS 34

15. Share-based payment

If the non-market performance vesting condition is no longer probable of being achieved, the entity reverses the previously recognised share-based payment expense in the period in which the assessment changes.

IFRS 2 *Share-Based Payment* requires entities that grant equity-settled share-based payment awards to employees with vesting conditions to recognise the related expense as services are provided during the vesting period when it is probable that vesting conditions other than market conditions (non-market performance vesting conditions) will be satisfied. The uncertainty related to the pandemic has resulted in a significant decline in business activity and share prices. Accordingly, the share-based payment expense for awards that contain a non-market performance condition is based on the best available estimate of the number of awards that are expected to vest and an entity is required to revise that estimate, if necessary, if subsequent information indicates that the number of awards expected to vest differs from previous estimates. Entities must consider updated forecasts to assess whether non-market performance vesting conditions based on metrics that have been affected by the coronavirus pandemic (e.g., sales, EBITDA) will be satisfied. If the non-market performance vesting condition is no longer probable of being achieved, the entity reverses the previously recognised share-based payment expense in the period in which the assessment changes. However, the likelihood of meeting market performance and/or non-vesting conditions is factored into the grant date fair value of the share-based payment transaction and the related expense continues to be recognised as long as the employee satisfies other vesting conditions (e.g., service conditions), irrespective of whether the market performance and/or non-vesting condition are met as specified in paragraphs 21 and 21A of IFRS 2.

Modifications and cancellations

Entities may amend the terms and conditions of share-based payment arrangements to keep employees and others providing similar services incentivised, where it is evident that vesting conditions will no longer be met as a result of the pandemic. If amendments (e.g., changing the earnings target for performance-based awards or the exercise price) to the terms and conditions of an award change the fair value, vesting conditions or classification of an award, the entity must apply modification accounting. For equity-settled share-based payment awards, paragraph 27 of IFRS 2 requires that, as a minimum, the entity must recognise for services received the grant date fair value (i.e., based on the original terms) unless those equity-instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

If entities or employees cancel any share-based payment arrangements during the vesting period, the cancellation should be accounted for as an acceleration of vesting and the entities must, therefore, recognise immediately the amount that otherwise would have been recognised for service received over the remainder of the vesting period. However, if a new equity instrument is granted and identified as a replacement of the cancelled award, the entity accounts for the granting of the replacement equity instruments in the same way as a modification of the original grant of equity instruments.

Modifying or cancelling share-based payment awards may have tax consequences. Accordingly, entities should consult with their tax advisors before modifying share-based payments.

Valuation of share-based payment awards

During the coronavirus pandemic, entities may issue new share-based payment awards that require a grant-date fair value to be determined or may modify an award (as mentioned above) that requires the fair value to be determined at modification date. IFRS 2 requires the fair value of services to be received to be measured by reference to the fair value of the equity instruments granted. One of the inputs into option pricing models to arrive at the fair value is the expected volatility of the share price. Expected volatility is a measure of the amount by which a share price is expected to fluctuate during the expected term of the option.

Paragraph B25 of IFRS 2 provides some guidance on factors to consider in estimating expected volatility, these include: using implied volatility (if available); historical volatility; the length of time the entity's shares have been publicly listed; the tendency of volatility to revert to its mean; and appropriate and regular intervals for price observations. If an entity is unlisted, that entity may consider using the historical volatility for similar listed entities in the absence of any internal market that may exist in estimating expected volatility.[14] If an entity is newly listed, it should compute historical volatility for the longest period for which trading activity is available. It could also consider the historical volatility of similar listed entities following a comparable period in their lives.[15]

Entities will normally start their assessment of expected volatility using historical volatility. During the coronavirus pandemic, share prices have been volatile and a question may arise as to whether historical volatility should be adjusted for the coronavirus pandemic by excluding recent share price activity. Factors to consider include the tendency of volatility to revert to its mean (i.e., its long-term average level), and whether other factors indicate that the expected future volatility might differ from past volatility. IFRS 2 provides an example where if an entity's share price was extraordinarily volatile for some identifiable period of time because of a failed takeover bid or a major restructuring, that period could be disregarded in computing historical average annual volatility. These examples are entity-specific, however, and an entity should not exclude general economic factors such as the effect of an economic downturn on share price volatility. Therefore, we would not generally expect an adjustment to be made to recent historic volatility as a result of the current pandemic that reflects a general economic downturn.

Disclosures

The pandemic may result in a need for additional disclosures for users of financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position, including information on how fair value was determined and the nature of a modification if an equity-settled share-based payment transaction was modified.

[14] See paragraphs B28 and B29 of IFRS 2.
[15] See paragraph B26 of IFRS 2.

How we see it

Entities should consider whether the pandemic has any impact on the probability of satisfying non-market performance vesting conditions over the vesting period under share-based payment arrangements. If so, then they need to consider the appropriate accounting for the modification or cancellation of such arrangements.

16. Events after the reporting period

The distinction between an adjusting event and a non-adjusting event is based on whether the event provides evidence of conditions that existed at the end of the reporting period.

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. IAS 10 makes a distinction between adjusting and non-adjusting events after the reporting period. The principal issues are how to determine which events after the reporting period are to be reflected in the financial statements as adjusting events and, for non-adjusting events, what additional disclosures to provide.

Recognition

Many governments have introduced various measures to combat the pandemic, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain as well as demand for goods and services. At the same time, fiscal and monetary policies are being relaxed to sustain the economy. These government responses and their corresponding effects are still evolving.

For entities that are affected, or expect to be impacted by measures taken, the critical judgement and evaluation that management need to make is whether and, if so, what event in this series of events provides evidence of the condition that existed at the end of the reporting period for the entity's activities or their assets and liabilities. When making this judgement, the entity takes into consideration all available information about the nature and the timeline of the pandemic and measures taken. For the purposes of recognition, for instance, in the context of a government grant, the entity needs to make a judgement on whether developments around laws and regulations provide a basis for an entitlement to the grant, as at the balance sheet date, in order to be considered for recognition in the current reporting period. If a new law or regulation introduces a government grant after the end of the reporting period, it will represent a non-adjusting subsequent event. When determining whether it is reasonably assured that the entity will comply with the conditions attached to the grant and that the grant will be received as per paragraph 7 of IAS 20, information obtained after the reporting period, (e.g., confirmation of the entity receiving the grant), may provide evidence of an adjusting event.

Disclosure

Determining whether events should result in adjustments to the financial statements or not depends on the nature of the subsequent event and the accounting topic. This assessment will in, many cases, be highly judgemental, and entities should therefore consider whether disclosures about this judgement is required, under the relevant circumstances.

If management concludes an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect. For example, it may have to describe qualitatively and quantitively how the market volatility subsequent to year-end has affected its equity investments and governmental measures imposed on sporting and social activities and border controls have affected or may affect its operations, etc. If an estimate cannot be made, then the entity is required to disclose that fact.

How we see it

Entities need to ensure effective processes are in place to identify and disclose material events after the reporting period which could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

17. Other financial statement presentation and disclosure requirements

When an entity breaches a covenant on or before the period end, with the effect that the liability becomes payable on demand, it is classified as a current liability.

The pandemic may affect an entity's ability to meet the covenant requirements included in long-term loan arrangements. IAS 1 requires that, when an entity breaches a covenant on or before the period end, with the effect that the liability becomes payable on demand, it is classified as a current liability. This is because the entity does not have an unconditional right to defer the settlement of the liability for at least twelve months after that date. This is the case even if the lender agreed, after the period end and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. In such a case, an entity needs to disclose as a non-adjusting event: a) any refinancing on a long-term basis; b) any rectification of the breach of covenant; and c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period (refer to section 16 above for further discussion on events after the reporting period).

Some long-term arrangements include covenants that the lender requires from the entity to monitor and ensure that they are met more frequently than annually. In such cases, entities must carefully consider if a waiver obtained before period end is, in effect, rectifying the breach permanently, or if it only provides a period of grace until the next scheduled covenants' test. In the former case, the liability would be considered non-current, while in the latter case, the liability would have to be reclassified to current. Generally, expectations about future breaches of covenant requirements do not impact the classification of liabilities as current or non-current. Therefore, entities should carefully consider the rights existing at the balance sheet date, when determining the classification. However, the considerations of the same circumstances under the requirements of IAS 1, as amended in January 2020, with an effective date of 1 January 2023, may be different. Therefore, before early adopting the amendments, entities should analyse the impact of both the current and the amended requirements to avoid unintended liability classification effects.

In addition to the disclosure requirements discussed in the above sections, IAS 1 requires disclosure of information about the assumptions concerning 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, such as non-current assets subject to impairment, within the next financial year (with the exception of assets and liabilities measured at fair value based on recently observed market prices). The disclosures are required to be presented in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided will vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures that an entity is required to make include:

- The nature of the assumption or other estimation uncertainty

- The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- 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
- An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved

When it is impracticable to disclose the extent of the possible effects of an assumption or other source of estimation uncertainty at the end of a reporting period, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

An entity is also required to disclose the judgements, apart from those involving estimations, 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.

Disclosure (for year-end reporting purposes)

The financial statement disclosure requirements for entities directly and/or indirectly affected by the pandemic will vary depending on the magnitude of the financial impact and the availability of information.

Because the pandemic may result in obligations or uncertainties that an entity may not have previously recognised or disclosed, an entity needs to consider whether to disclose additional information in the financial statements to explain the impact of the pandemic on areas that might include provisions and contingent assets/liabilities, in addition to asset impairments after the reporting period as discussed above.

The occurrence of the pandemic has certainly added additional risks that the carrying amounts of assets and liabilities may require material adjustments within the next financial year.

In relation to the assumptions and estimation uncertainty associated with the measurement of various assets and liabilities in the financial statements, the occurrence of the pandemic has certainly added additional risks that the carrying amounts of assets and liabilities may require material adjustments within the next financial year. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgement applied in the financial statements. Such disclosure may include, for a financial statement item with a carrying amount that is more volatile in response to the pandemic, a sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation.

How we see it

Entities need to consider the magnitude of the disruptions caused by the pandemic to their businesses and adequately disclose the information about those assets and liabilities that are subject to significant estimation uncertainty, in order to provide users with a better understanding of the financial impact.

Disclosure (for interim reporting purposes)

In accordance with IAS 34, an entity is required to 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 end of the last annual reporting period. Also, an entity is required to include explanations regarding the nature and amount of items affecting assets, liabilities, equity, net income and cash flows that are unusual because of their nature, size or incidence. Information disclosed in relation to those events and transactions should also update the relevant information presented in the most recent annual financial report. IAS 34 includes a number of required disclosures as well as a non-exhaustive list of events and transactions for which disclosures would be required if they are significant. For example, where significant, an entity needs to disclose 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. In addition, an entity is also required to disclose any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period and transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments where significant.

Furthermore, although IAS 34 does not contain a detailed requirement to include sensitivity disclosures, as discussed above, if the range of reasonably possible changes in key assumptions has significantly changed since the end of the last annual reporting period, an update of relevant sensitivity disclosures may be required.

The standard presumes a user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. However, as most entities are only recently impacted by the pandemic which is rapidly evolving, they may not have included much relevant information in their last annual financial reports and thus may need to include more comprehensive disclosure on, especially, where relevant, the topics discussed in this publication for interim financial reporting purposes.

While other standards specify disclosures required in a complete set of financial statements, if an entity's interim financial report includes only condensed financial statements as described in IAS 34, then the disclosures required by those other standards are not mandatory. However, if disclosure is considered to be necessary in the context of an interim report, those other standards provide guidance on the appropriate disclosures for many of these items. In light of these requirements and depending on the entity-specific facts and circumstances, higher-level disclosures may be sufficient in condensed interim financial statements.

How we see it

Entities that prepare IFRS financial statements may periodically issue non-IAS 34 interim information such as trading updates. It is important for users to understand the basis of preparation of such statements, especially whether they follow the measurement and recognition requirements of IFRS. For example, if the trading statement has not reflected the effect of any impairment charges which are otherwise required under IFRS, entities should carefully consider making appropriate disclosures.

18. Other accounting estimates

Apart from the above, the following are some of the other key accounting estimates required to be made by management under IFRS. These estimates generally include management's assumptions about the future recoverability of an asset:

- Impairment charge of investments in associates and joint ventures accounted for in accordance with the equity method under IAS 28 *Investments in Associates and Joint Ventures*
- Remaining useful life and residual value of property, plant and equipment, intangible assets and right-of-use assets under IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets* and IFRS 16, respectively.

19. Alternative performance measures and disclosures

IFRS provides some flexibility in presenting and disclosing APMs within the financial statements. However, there are some requirements that entities need to bear in mind when considering the use of APMs.

There are various ways that an entity may elect to provide information on the impact of the coronavirus pandemic on their financial performance, financial position and cash flows. For example, entities may decide to present additional line items in their primary financial statements or disclose quantitative estimates or qualitative explanations of the impact of the coronavirus pandemic in the notes to the financial statements. Other entities may decide to use a variety of financial measures, other than the measures required by the application of IFRS, sometimes referred to as, adjusted numbers, non-GAAP measures, Management Performance Measures (MPMs), or Alternative Performance Measures (APMs).

IFRS provides some flexibility in presenting and disclosing APMs within the financial statements. However, there are some requirements that entities need to bear in mind when considering the use of APMs. In particular, IAS 1 requires entities to clearly identify and distinguish IFRS financial statements from other information in the same published document. Also, IFRS generally requires the presentation of specific line items, but only if these are material. Additional line items and subtotals are required by IAS 1, when such presentation is relevant to the understanding of the entity's financial position or financial performance. If so, IAS 1 sets out certain requirements, including that they are labelled in a manner that makes the line items that constitute a subtotal clear and understandable and that they are not displayed with more prominence than the subtotals and totals required by IFRS.

With respect to disclosures, IAS 1 and IAS 34 require separate disclosure of the nature and amount of items of income or expense that are material and this information may be given on the face of the statement of profit or loss and other comprehensive income or in the notes. Moreover, there is a requirement to disclose in the notes to the IFRS financial statements information that is not presented elsewhere in the financial statements, but which is relevant to an understanding of the financial statements. If line items or subtotals have been included on the grounds of being relevant to the understanding of the financial performance or position, then definitions and explanations of these items may be relevant to the understanding of the financial statements.

Some regulators have also issued specific guidance on the use of coronavirus-adjusted APMs. For instance, the International Organization of Securities Commissions (the IOSCO), issued a statement on 29 May 2020, which, among other reminders, highlighted that entities should carefully evaluate the appropriateness of an adjustment or an APM, because not all effects of the pandemic are non-recurring. Entities need to explain how an adjusted amount is specifically associated with the pandemic to avoid misleading users. Moreover, IOSCO highlighted that "characterising hypothetical sales and/or profit measures (e.g., had it not been for the effect of coronavirus pandemic the company's sales and/or profits would have increased by XX%) as non-GAAP financial measures would not be appropriate".[16]

[16] IOSCO Statement on Importance of Disclosure about COVID-19 issued on 29 May 2020.

Refer to our publications *Applying IFRS: Impact of coronavirus on alternative performance measures and disclosures* (May 2020) and *Applying IFRS: Alternative Performance Measures* (October 2018) for more information.

How we see it

Entities must carefully consider the requirements in IAS 1 if they are considering introducing coronavirus-related APMs. In the current environment, the comparability of coronavirus-related APMs among entities will be a major challenge without a generally accepted way to objectively define and structure them. Depending on their specific facts and circumstances, entities may find it less controversial to provide a separate disclosure explaining the impact of the coronavirus pandemic, rather than introducing a new APM or adjusting their APMs.

Appendix: Summary of important changes to this publication

We have made important changes to this publication since the November 2020 edition, to address evolving issues and expand our discussion of certain topics. The list below summarises the most significant changes we made in this February 2021 update.

Section 9 Leases

- Added the Board's proposal to further amend IFRS 16 to extend relief on rent concessions related to the coronavirus pandemic

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