Applying IFRS

Disclosure of Covid-19 impact

October 2020

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1. Background

The Covid-19 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 Covid-19 outbreak could 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 many people in many 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 Covid-19 pandemic (Covid-19 or the pandemic) has also resulted in significant volatility in the financial and commodities markets worldwide. Various governments have provided both financial and non-financial assistance to disrupted industry sectors and the affected businesses and other organisations.

We have surveyed the disclosures in IFRS financial statements of more than 120 companies that published their annual financial statements subsequent to the Covid-19 pandemic being declared. Therefore, most of these financial statements are from entities with a 30 June 2020 year-end. As noted in the *Appendix: List of companies,* most of these companies are located in Australia, South Africa and the United Kingdom.

Covid-19 clearly represents a challenge for entities and has affected them in many different ways. Users of financial statements wish to understand not just how entities have been affected to date, but also how this might affect their future performance and what risks they remain exposed to. The purpose of the survey was twofold:

- To provide users of financial statements with an overview of accounting issues that should be of interest to them
- To identify examples of disclosures that illustrate the impact on entities which may help other entities in preparing their own financial statements

The examples of disclosures in this publication have been taken from annual IFRS financial statements and are grouped by areas of interest. The issues discussed are by no means exhaustive and their applicability depends on the facts and circumstances of each entity. It should be noted that many entities also include extensive disclosures about the impact of Covid-19 in their management commentaries, but those disclosures fall outside the scope of this publication.

Extracts from financial statements presented in this publication are reproduced for illustrative purposes. They have not been subject to any review on their compliance with IFRS or any other requirements, such as local capital market rules. This publication documents practices that entities have developed, and the extracts presented here are not intended to represent 'best practice'. We also remind readers that the extracts presented should be read in conjunction with the rest of the information provided in the financial statements in order to understand their intended purpose.

While entities have applied IFRS in reporting on the impact of Covid-19, new application issues may continue to arise. Furthermore, the views we express in this publication may evolve as practice develops. The impact of Covid-19 will depend on the underlying facts and circumstances specific to the entity, which means that in seemingly similar situations differences in presentation and disclosure may be appropriate.

This publication supplements our *Applying IFRS* series on accounting considerations of the coronavirus pandemic and should be read in conjunction with it. Please see ey.com/IFRS for our most recent IFRS Covid-19 publications.

2. Going concern

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

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, up to the date on which the financial statements are issued. Given the unpredictability of the potential impact of the Covid-19 pandemic, there may be material uncertainties that cast significant doubt on the entity's ability to operate on a going concern basis. When an entity prepares its financial statements, it is required to disclose these material uncertainties in order to make clear to readers that the going concern assumption used by management is subject to such material uncertainties. Regardless of whether management concludes that the material uncertainties do not exist, if management has exercised significant judgement in making its going concern assessment, the significant judgements must be disclosed.

Considerations that an entity might disclose to address its going concern basis include:

- Whether the entity has sufficient cash and/or headroom in its credit facilities to survive a downturn whilst noting that the evolving nature of the Covid-19 pandemic means that uncertainties will remain, and it may not be able to reasonably estimate the future impact of Covid-19
- Actions the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity
- Consideration of the entity's business model and related risks
- Any challenges of the underlying data and assumptions used to make the going concern assessment

Barratt Developments plc (Barratt) adopted the going concern basis in the preparation of its financial statements. However, the Covid-19 pandemic has heightened the inherent uncertainty in its going concern assessment. Therefore, the significant judgement Barratt exercised in reaching the conclusion was disclosed, although it concluded that there are no material uncertainties that might cast significant doubt on the ability of the company to continue to operate as a going concern. The going concern assessment is based on a worst-case scenario which was modelled over the three-year period covered by the Director's viability review. It concluded that the going concern assumption is appropriate for the next 12 months at least. Barratt disclosed that it has sufficient liquidity to meet its current liabilities and also disclosed its working capital requirements and the mitigating actions it would expect to undertake.

Extract 1: Barratt Developments plc — *United Kingdom*

1.3 Going concern

In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future.

The Group's business activities, together with factors which the Directors consider are likely to affect its development, financial performance and financial position are set out in the Strategic Report on pages 2 to 79. The material financial and operational risks and uncertainties that may have an impact on the Group's performance and their mitigation are outlined on pages 72 to 77 and financial risks including liquidity risk, market risk, credit risk and capital risk are outlined in note 5.4 to the Financial Statements.

At 30 June 2020, the Group held cash of £619.8m and total loans and borrowings of £317.7m, consisting of £117.7m of overdrafts repayable on demand and £200.0m sterling USPP notes maturing in August 2027. These balances, set against pre-paid facility fees, comprise the Group's net cash of £308.2m presented in note 5.1.

Should further funding be required, the Group has a committed £700m RCF, subject to compliance with certain financial covenants, that matures in November 2024. In addition, on 28 April 2020 the Group received confirmation that it was eligible to access funding under the CCFF until March 2021. Utilisation of the CCFF is not anticipated.

As such, in consideration of its net current assets of £4,267.9m, the Directors are satisfied that the Group has sufficient liquidity to meet its current liabilities and working capital requirements.

The future financial performance of the Group is dependent upon the wider economic environment in which it operates. The factors that particularly affect the performance of the Group include flat or negative economic growth, buyer confidence, mortgage availability and affordability, competitor pricing, new housing supply, falls in house prices or land values and the cost and availability of raw materials, sub-contractors and suppliers.

COVID-19 has heightened the inherent uncertainty in the Group's assessment of these factors. Since the release from lockdown, UK housing market activity has shown a marked rebound and demand relative to supply remains strong. However, the outlook remains unclear: unemployment is expected to rise and market activity could be affected by an unfavourable outcome to negotiations regarding the UK's relationship with the EU or changes to the Government's Help to Buy scheme. The suspension of trading under COVID-19 has increased the Group's short term sensitivity to its RCF covenants. Future outbreaks of the disease may cause further disruption.

The Group's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing of these Financial Statements. This includes the implementation of COVID-19 safe working practices and market changes following revisions to the Help to Buy scheme.

To assess the Group's resilience to more adverse outcomes, its forecast performance was sensitised to reflect a series of scenarios based on the Group's principal risks and the downside prospects for the UK economy and housing market presented in the latest available external economic forecasts.

This exercise included a reasonable worst-case scenario in which the Group's principal risks manifest in aggregate to a severe but plausible level. This assumed that sales volumes and average selling prices fall below their pre-COVID-19 levels by 25% and 10% respectively, construction costs increase by 5%, and that the Group temporarily closes its operations for two months in response to a national resurgence of the virus.

The effects were modelled over the three-year period covered by the Directors' viability review, alongside reasonable mitigation that the Group would expect to undertake in such circumstances, primarily a reduction in investment in inventories in line with the fall in expected sales and the actions successfully deployed during the Group's closure of its operations in March 2020, without Government assistance. In all scenarios, including the reasonable worst case, the Group is able to comply with its financial covenants, operate within its current facilities without utilising the CCFF, and meet its liabilities as they fall due.

Furthermore, a reverse stress test was performed to determine the market conditions in which the Group, without mitigating action, would cease to be able to operate under its current facilities. Based on past experience and current economic forecasts, the Directors consider the possibility of this outcome to be remote and have identified mitigation that would be adopted in such circumstances.

Accordingly, the Directors consider there to be no material uncertainties that may cast significant doubt on the Group's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of signing of these Financial Statements. For this reason, they continue to adopt the going concern basis in the preparation of these Financial Statements.

Domain Holdings Australia Limited (Domain) prepared its financial statements on a going concern basis. Domain disclosed its consideration of the appropriateness of the going concern basis, which includes the agreements for new lending facilities and financial covenant waivers.

Extract 2: Domain Holdings Australia Limited — *Australia*

1. About this Report

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B. Basis of preparation

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I. Going concern basis of accounting

The Group has prepared the financial statements for the financial year ended 30 June 2020 on a going concern basis, which assumes continuity of current business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

On 27 April 2020, the Group announced measures to strengthen its liquidity and cash preservation in response to COVID-19, including a new $80.0 million credit facility with a term of 18 months, initiatives relating to staff and employee-related costs and several other cost initiatives. The Group agreed with its banking group financial covenant waivers for 30 June 2020 and 31 December 2020. The next covenant testing date is therefore 30 June 2021.

The Group has prepared financial forecasts for the twelve months from the date of approval of these financial statements taking into consideration the estimation of the continued business impacts of COVID-19. The Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis after considering the financial forecasts, including downside forecast scenarios, and the following:

- The Group continues to have the ongoing support of its banking group and access to undrawn facilities of $132.0 million (refer to Note 8 for further details) as well as $65.5 million in cash and cash equivalents as at 30 June 2020;
- As at 30 June 2020, the Group had $33.4 million in net working capital, capital commitments of $3.3 million as well as lease commitments of $0.8 million due within one year; and
- The Group was in compliance with its financial covenants at 30 June 2020 and is forecasting covenant compliance at 31 December 2020 and 30 June 2021.

How we see it

The degree of consideration of the impact of Covid-19 , 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

The Covid-19 pandemic and the related government measures to provide financial assistance 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 and disclosure requirements for financial instruments.

3.1 Liquidity risk and modification of financing contracts

Entities affected by Covid-19 may experience cash flow challenges arising from disruptions to their operations, higher operating costs or decrease in demand for their products, which results in lost revenues. This may trigger liquidity problems and entities may need to obtain additional financing, amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants. It is expected that the disclosures required under IFRS 7 reflect any significant changes in the liquidity position and it is important that entities disclose what actions they have taken to mitigate any cash flow challenges. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

Dixons Carphone plc (Dixons), like many entities during the Covid-19 pandemic have entered into a new facility to ensure that any liquidity concerns are mitigated. This was disclosed in Dixons' financial risk management and derivative financial instruments note below:

Extract 3: Dixons Carphone plc *United Kingdom*

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group manages its exposure to liquidity risk by reviewing regularly the long term and short term cash flow projections for the business against the resources available to it. In response to Covid-19, the Group entered into a one year facility of £266m due to mature in April 2021.

In order to ensure that sufficient funds are available for ongoing and future developments, the Group has committed bank facilities, excluding overdrafts repayable on demand, totalling £1,360m (2018/19: £1,093m). Further details of committed borrowing facilities are shown in note 19.

Disclosures should also include measures taken to address liquidity risk which have occurred subsequent to the period end but prior to the financial statements being authorised for issuance. For example, Downer EDI Limited (Downer) renegotiated the maturity dates of a significant portion of its debt facilities and established new committed debt facilities, a larger portion of which was established in direct response to Covid-19 to ensure its liquidity strength was maintained during a period of heightened global uncertainty and volatility. After the end of the fiscal year, Downer announced an equity raising to support an acquisition and provide flexibility for continued investment in its core business.

Extract 4: Downer EDI Limited *Australia*

(f) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due. The Group's liquidity risk is managed under a Board approved Treasury Policy that sets clear parameters governing the Group's continued access to liquidity.

The Group manages liquidity risk by ensuring a minimum level of liquidity is available to meet the Group's financial obligations in the form of available liquid cash balances and access to committed undrawn debt facilities and other forms of capital, monitoring forecast and actual cashflows and matching the maturity profile of financial assets and liabilities.

The Group seeks to mitigate its exposure to liquidity risk by ensuring that debt facilities are provided by strong and investment grade rated financial counterparties and by the early refinancing of debt facilities to ensure continued access to capital over the medium term.

During the year ended 30 June 2020, the Group was successful in renegotiating the maturity dates of a significant portion of its debt facilities and establishing $787.8 million of new committed debt facilities, $500 million of which was established in direct response to the global COVID-19 pandemic to ensure the Group's liquidity strength was maintained during a period of heightened global uncertainty and volatility. In addition, the Group deferred payment of the 2019 interim dividend of $83.3 million to further augment its strong liquidity position.

On 21 July 2020, the Group announced the launch of a $400 million equity raising to support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

The Group now has no material debt facilities maturing in the 12 months to 30 June 2021 and a strong liquidity position which will assist in mitigating any further market volatility. The Group's debt facility maturities will continue to be monitored and refinanced in advance subject to credit market conditions and the support of its financial counterparties. Included in Note E2 is a summary of committed undrawn bank loan facilities.

Auckland International Airport Limited (Auckland Airport), for example, has disclosed that it has completed extensions of all bank facilities maturing before 31 December 2021. It also provides details of the extension terms and the amount of the available and undrawn facilities.

Extract 5: Auckland International Airport Limited — *New Zealand*

Bank facilities
Borrowings under the drawn bank facilities and standby bank facilities are supported by a negative pledge deed.

In the year ended 30 June 2020, the company undertook the following bank financing activity:

- In August 2019, a new $100.0 million, five-year facility was established with Mizuho Bank. The new facility replaced an existing drawn facility of the same amount that was set to mature in October 2019;
- An additional $95.0 million, 39-month facility was also established in August 2019 with China Construction Bank;
- In December 2019, two new $50.0 million, 12-month standby facilities were established with Bank of New Zealand and Westpac New Zealand, but these facilities were extended in April 2020;
- In March 2020, two new $195.0 million, 12-month standby facilities were established with MUFG Bank and Westpac New Zealand, and these were extended in April 2020; and
- In April 2020, in response to COVID-19, Auckland Airport completed extensions of all bank facilities maturing before 31 December 2021. This resulted in the following extensions:

Facilities extended	Original maturity date	Extended facility date	Available $M	Undrawn $M
ANZ Evergreen Facility	20-Jun-21	31-Jan-22	100.0	100.0
Bank of China	17-Aug-21	31-Jan-22	30.0	20.0
Bank of New Zealand (Facility 1)	31-Oct-20	28-Feb-23	80.0	80.0
Bank of New Zealand (Facility 2)	9-Dec-20	28-Feb-22	50.0	10.0
Commonwealth Bank of Australia	27-Oct-20	30-Nov-22	96.3	56.3
MUFG Bank (Facility 1)	27-Oct-20	28-Feb-23	50.0	35.0
MUFG Bank (Facility 2)	1-Apr-21	31-Mar-22	195.0	195.0
Westpac New Zealand (Facility 1)	9-Dec-20	28-Feb-22	50.0	45.0
Westpac New Zealand (Facility 2)	25-Mar-21	31-Mar-22	195.0	195.0

In addition to the bank facility extensions, Auckland Airport also sought waivers of its financial covenants from both bank and United States Private Placement (USPP) lenders. The waivers were granted by the banks in April 2020 and by USPP investors in June 2020. The waivers cover the period from June 2020 to December 2021 (inclusive).

An example of a disclosure where the impact was during the reporting period and not at the end of the period is made by Challenger Limited (Challenger). In its interest bearing financial liabilities note, Challenger had an undrawn 'Corporate' banking facility of A$400 million at the start of the financial year and A$50 million was outstanding at the end of the financial year. Challenger disclosed that, as a result of the Covid-19 pandemic, this facility was fully drawn down in March 2020, to 'provide additional financial flexibility during the Covid-19 crisis'. The footnote continued to state that A$350 million was repaid in June 2020.

Extract 6: Challenger Limited — *Australia*

Note 13 Interest bearing financial liabilities

	30 June 2019		Cash flows	Non-cash movements			30 June 2020	
	Facility $m	Opening balance $m	Proceeds/ (repayments) $m	Foreign exchange $m	Fair value changes $m	Other $m	Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	-	50.0	-	-	-	50.0	400.0
Controlled property trusts[2,4]	459.8	459.8	(17.7)	6.8	2.2	2.7	453.8	453.8
Controlled infrastructure trusts[4]	192.0	192.0	(6.2)	-	-	-	185.8	185.8
Repurchase agreements	4,448.5	4,448.5	944.9	-	-	-	5,393.4	5,393.4
Total bank loans	**5,500.3**	**5,100.3**	**971.0**	**6.8**	**2.2**	**2.7**	**6,083.0**	**6,433.0**
Non-bank loans								
Subordinated debt	400.0	403.8	-	-	(8.1)	-	395.7	400.0
Challenger Capital Notes 1[4]	345.0	343.6	-	-	-	1.4	345.0	345.0
Challenger Capital Notes 2[4]	460.0	452.7	-	-	-	1.8	454.5	460.0
Other finance	12.7	12.7	(12.5)	-	(0.2)	-	-	-
Total non-bank loans	**1,217.7**	**1,212.8**	**(12.5)**	**-**	**(8.3)**	**3.2**	**1,195.2**	**1,205.0**
Total interest bearing financial liabilities	**6,718.0**	**6,313.1**	**958.5[3]**	**6.8**	**(6.1)**	**5.9**	**7,278.2**	**7,638.0**
Current		4,473.2					5,468.9	
Non-current		1,839.9					1,809.3	
		6,313.1					**7,278.2**	

[1] In March 2020, the Group elected to fully draw its $400.0 million banking facility in order to provide additional financial flexibility during the COVID-19 crisis. $350.0 million of this drawing was repaid in June 2020.
[2] Total facility limit consists of non-redraw loan facilities limits totalling $453.8 million (30 June 2019: $459.8 million).
[3] Differs to Statement of cash flows due to $134.8 million (30 June 2019: $189.0 million) repayments relating to SPV. Net cash proceeds comprise $1,344.9 million (30 June 2019: $632.8 million) proceeds from borrowings and $521.2 million (30 June 2019: $315.4 million) repayments of borrowings.
[4] Held at amortised cost except for the controlled property trust loan in respect of County Court. The fair value of these are: Challenger Capital Notes 1 and 2 $340.9 million and $457.7 million (30 June 2019: $350.3 million and $485.7 million) respectively; controlled property trusts $474.9 million (30 June 2019: $458.0 million); controlled infrastructure trusts $189.8 million (30 June 2019: $192.5 million).

3.2 Hedge accounting

As the economy slows as a result of the Covid-19 pandemic, 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'.

It is important that entities ensure that the disclosure requirements of IFRS 7 are met in respect of designated hedging relationships.

An example of a disclosure that is required under IFRS 7 is whether the hedges are no longer effective. Cochlear Limited disclosed that its forward exchange contracts were no longer highly effective and that hedge accounting on these items has been discontinued. It then disclosed the amount of the loss arising from the termination of the ineffective forward exchange contracts.

Extract 7: Cochlear Limited *Australia*

In the year ended 30 June 2020, Cochlear assessed that its forward exchange contracts to hedge sales revenues in EUR, GBP and USD for periods less than one year were no longer highly effective due to the combined effects of COVID-19 and the patent litigation on the probable foreign currency cash flows anticipated to be received during that period. As a result, those cash flow hedges no longer met the criteria for hedge accounting and hedge accounting on those cash flow hedges was discontinued. The associated cumulative gain/(loss) was removed from equity and recognised in the income statement in the same period that hedge accounting was discontinued. In addition, the ineffective forward exchange contracts were terminated with a total loss of AUD 26.1 million (2019: AUD nil).

3.3 Expected credit loss (ECL) assessment

Deterioration in credit quality of loan portfolios and trade receivables (amongst other items) as a result of Covid-19 may have a significant impact on an entity's ECL measurement.

The large-scale business disruptions caused by Covid-19 may give rise to liquidity issues for some entities. Deterioration in credit quality of loan portfolios and trade receivables (amongst other items) as a result of Covid-19 may have a significant impact on an entity's ECL measurement.

A number of regulators have published guidance on the regulatory and accounting implications of the impact of Covid-19. In March 2020, the International Accounting Standards Board (IASB) published a document for educational purposes, entitled, *Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic*, to help support the consistent application of accounting standards on expected credit losses. IFRS 9 does not set bright lines or a mechanistic approach to determining whether 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.

Entities should consider the following in updating their ECL calculations due to Covid-19:

- The use of reasonable and supportable information. Given the unprecedented circumstances, it is critical that entities provide transparent disclosure of the critical assumptions and judgements used to measure the ECL. This may be difficult since rating companies may not have updated their ratings
- Re-segmentation of loan portfolios or groups or receivables

- Individual and collective assessment of loans, receivables and contract assets. In order to accelerate the detection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust the ratings and probabilities of default on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers
- Extension of payment terms. 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 estimates
- Payment holidays

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios and, as such, entities need to reassess the inputs to their provision matrix used to calculate ECLs. Uncertainties in market trends and economic conditions may persist due to Covid-19, which may impact actual results that differ materially from the estimates in ECLs.

It is important that entities make adequate disclosures concerning their assessment of ECLs. It may be that entities' ECLs are not impacted by Covid-19. However, given the subjective nature of ECL calculations, it would be appropriate for entities to disclose the inputs into the calculation and to consider a sensitivity analysis to highlight the impact of changes to inputs on its ECL estimates.

3.4 Payment holidays and breaches of covenants

Corporates that are money lenders should disclose the payment holiday measures they have provided to customers as a result of Covid-19. Some of these measures will be required by governments whilst others will be at the discretion of the lender. This should include the key terms of the payment holidays and the volumes granted (e.g. expressed as carrying amounts and related ECLs for the related exposures. It is also important that entities disclose any financial impact (e.g., the expense incurred as a result of having waived or reduced interest over the holiday period), the effect of government support received and whether the measures provided to customers are considered to be indicators of an SICR as indicated by IFRS 9.

The following extracts are examples of disclosures provided by banks on this area, which may be considered by corporates to the extent relevant and applicable.

Commonwealth Bank of Australia Limited (CBA) disclosed that it introduced support measures to its customers including loan repayment deferrals and origination of loans under a government guarantee scheme. Furthermore, CBA discussed the relationship between a loan deferral and a SICR event and the steps undertaken to determine if a SICR event occurred.

Extract 8: Commonwealth Bank of Australia Limited — *Australia*

Note 1.1 – Basis of Accounting (Impact of coronavirus (Covid-19))

Loans, bills discounted and other receivables

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferrals to retail and small business customers, and the origination of loans under the Government's Small and Medium Enterprises (SME) guarantee scheme. The repayment deferral arrangements were deemed continuations of customers' existing loans and were therefore accounted for as non-substantial loan modifications. A total modification loss of $6 million was recognised in relation to repayment deferrals on home loans, where interest over the deferral period was charged on a simple interest, rather than compounding basis. No other modification gains or losses were recognised as a result of the repayment deferrals. Refer to Note 3.1 and 3.2.

Note 3.2 – Provisions for impairment (SICR)

The offer or uptake of a COVID-19 related repayment deferral does not itself constitute a SICR event unless the exposure is considered to have experienced a SICR based on other available information. For most retail exposures on repayment deferrals, SICR has been assessed with reference to credit quality score that is strongly associated with a heightened loan-to-value ratio and low levels of prepayment. The Group reassessed the internal credit risk ratings for the majority of non-retail exposures in segments most impacted by COVID-19 in the last quarter of the financial year 2020, including those on repayment deferrals, to determine if changes in customers' circumstances were sufficient to constitute SICR.

FirstRand Limited (FirstRand) disclosed the relief measures it provided to eligible customers with a detailed description of the mechanism by which the relief operates. The reasons behind modification losses were also disclosed together with the quantitative impact.

Extract 9: FirstRand Limited — *South Africa*

MODIFICATION – COVID-19 RELIEF PROVIDED TO CUSTOMERS

The group has offered financial relief through various mechanisms in response to COVID-19. These relief measures were granted to eligible customers whose accounts were up to date as at 29 February 2020 and included the following:

- additional facilities or new loans being granted, in particular the cash flow relief account;
- restructure of instalment products (payment relief) including extension of contractual terms;
- payment and interest relief; and
- extension of balloon repayment terms.

The cash flow relief account was offered to eligible FNB retail customers, where instead of offering customers a payment holiday with a term extension, customers were offered a cash flow relief loan, whereby payments due by the customer to the group on a variety of the group's products could be drawn from the cash flow relief account for a period of three months. The cash flow relief account bears interest at prime, and has a flexible repayment period as negotiated. The customer has the ability to settle the amount earlier without incurring penalties and repayment only commences once the three-month relief period is over. In some instances, the relief period has been extended by a further three months. Amounts advanced to customers under the cash flow relief scheme is included in the retail unsecured class of advances. As the cash flow relief account is treated as a new advance to the customer and no modification loss was recognised on the underlying advances, as the payments due were settled from the cash flow relief account.

WesBank customers that bank with FNB were able to utilise the cash flow relief loan to make payment under their credit agreements. Customers with balloon payments due could elect to convert their balloon payment into an extended repayment term, on terms similar to those in the original credit agreement.

Relief granted by RMB was in the form of short-term debt repayment moratoriums, increase in credit limits, short-term bridge financing and covenant waivers.

Other financial relief mechanisms employed by the group included customers being offered payment holidays of between three and six months. During the payment holiday interest accrued at the contractual rate. At the end of the relief period, customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the full amount at the end of the deferral period.

The debt relief measures discussed above, resulted in the group not suffering a modification loss as the present value of the original cash flows and the present value of the revised cash flows were equivalent.

Within Aldermore, financial relief mechanisms included in addition to those described above, payment holidays with no interest charged to the customer during the payment holiday. The customer's instalments were unaltered, but the term of the credit agreement was extended by the payment holiday period, or the credit agreement was not extended, and the final three instalments of the agreement were increased.

Other financial relief mechanisms employed by the group included reducing the interest charged during the payment holiday period, or in some instances penalty interest was suspended during the payment holiday period.

Other debt relief measures resulted in the group suffering a modification loss as the present value of the original cash flows and the present value of the revised cash flows were not equivalent.

3.5 Current vulnerability due to concentration risks

Entities that have a large portion of their receivables with a small number of similar customers may face a concentration of risk and, as a result, a greater risk of loss than other entities. Paragraph 34(c) of IFRS 7 requires that concentration of risk should be disclosed if it is 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 industries
- 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 (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, under the current circumstances, consider making such a disclosure.

Burberry Group plc (Burberry) disclosed that it does not have a significant concentration of credit risk. It disclosed that trade receivables are spread across a large number of customers and no debtor has more than 4% of the total balance due, with a prior year comparison to highlight the lack of significant movement in debtor concentration.

Extract 10: Burberry Group plc *United Kingdom*

Credit risk

Trade receivables

The Group has no significant concentrations of credit risk. The trade receivables balance is spread across a large number of different customers with no single debtor representing more than 4% of the total balance due (last year: 5%). The Group has policies in place to ensure that wholesale sales are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. In some retail locations, where the Group's store is contained within a department store or mall, for example a concession, the sales proceeds may be initially held by the operator of the wider location, giving rise to retail debtors. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant and default rates have historically been very low.

Verbio Vereinigte BioEnergie AG (Verbio) disclosed details of its concentration of credit risk by both customer groups and regions. This disclosure included the note that management monitors its concentration of credit risk by both customer groups and regions.

Extract 11: Verbio Vereinigte BioEnergie AG *Germany*

Concentration of credit risks

Credit risks relating to trade receivables are distributed among the following customer groups and regions (the respective carrying amounts represent the respective credit risk):

Concentration according to customer groups

EUR (thousands)	30.06.2020	30.06.2019
Oil companies	44,686	31,092
Processing industries (in particular oil mills and pharmaceutical companies) and trading companies	12,825	9,994
Electric utilities	655	2,004
Farmers	651	1,980
Transport companies	77	1,238
Disinfectant solution customers	4,316	0
Other	1,478	2,232
Total	**64,688**	**48,540**

Concentration according to region

EUR (thousands)	30.06.2020	30.06.2019
Inland	26,925	18,258
Europe	27,069	30,281
North America	9,813	0
Other foreign	881	1
Total	**64,688**	**48,540**

The Company monitors its concentration of credit risk by industry sectors as well as by region.

3.6 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 ECLs is particularly relevant. Important disclosures would, for example, include the values of the key macroeconomic inputs used in a 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.

Seven West Media Limited (Seven West) provides details of the new procedures which it has undertaken in determining ECLs as a result of Covid-19. Seven West refers to the general processes that it undertakes for ECLs in a 'normal' environment and has noted four new specific areas that have been considered this year. Seven West's assessment of ECLs has resulted in a lower ECL rate for debtors over 90 days, but there has been an increase in the ECL rate for shorter periods, including current debtors, which is the driver of the overall net increase in ECLs in 2020.

Extract 12: Seven West Media Limited — Australia

Impact of COVID-19 on assessment of Credit Risk

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. COVID-19 related business closures and restrictions to trade, combined with material decreases in advertising revenues and a reduction in forward bookings of advertising during the last quarter of FY20 prompted the business to review the key factors impacting the credit risk of its customer base throughout the later half of the year and at balance date. The Group also was impacted by the Trade Credit Insurance industry restricting the level of cover provided in high risk categories.

The Group's reassessment of credit risk for existing and new customers included the following procedures in addition to those already described in Note 6.6C(i) of this financial report

- re-assessment of approved trade credit terms of customers trading in perceived high risk and high COVID-19 impacted industries, specifically those characterised by high consumer discretionary spend patters such as travel & tourism, automotive, property, construction and retail and consumer goods businesses;
- review of standard payment terms for all customers;
- negotiation of payment terms for aged amounts and a stop on overdue accounts; and
- where increased risk was identified the Group moved to tighten credit policy, ensure payments were received per current trading terms, seek additional director guarantees in some circumstances, and moved some debtors to full or partial prepayment terms or reduced credit limits

The revised procedures and ongoing COVID-19 impact has resulted in recognition of additional credit loss provision of $3.2 million in the second half of FY20.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contracts assets using a provision range matrix.

		Past due but not impaired			
	Not past due	< 30 days	31-90 days	> 90 days	Total $'000
Year ended 27 June 2020					
Expected credit loss rate	1.7%	7.5%	38.9%	65.2%	
Estimated total gross carrying amount	138,477	15,515	4,109	1,728	**159,829**
Expected credit loss	(2,322)	(1,165)	(1,599)	(1,126)	**(6,212)**
Year ended 29 June 2019					
Expected credit loss rate	0.1%	6.1%	26.5%	92.8%	
Estimated total gross carrying amount	249,192	22,641	3,655	892	**276,380**
Expected credit loss	(271)	(1,373)	(970)	(828)	**(3,442)**

Insurance Australia Group Limited (IAG) disclosed that while it has not changed the methodology and assumptions applied on which it based its ECL calculations, it did incorporate estimates, assumptions and judgements specific to the impact of Covid-19.

Extract 13: Insurance Australia Group Limited — Australia

- Expected credit losses

The impact of COVID-19 on the recoverability of receivables from (re)insurance and non-insurance contracts have been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Group has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic and the associated customer support packages provided. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case. Refer to Note 2.6 for further details on ECL.

Suncorp Group Limited (Suncorp) disclosed details of the material uncertainty and judgements related to its ECLs and then followed this with a sensitivity analysis which shows the downside sensitivity ECL. Suncorp disclosed that a payment deferral request does not automatically result in a SICR, as per

industry guidance, and that it adopted an accounting treatment to pause counting days past due, until such time as any deferral period ends.

Extract 14: SunCorp Group Limited — *Australia*

15.3 Expected credit loss model methodology, estimates and assumptions

(a) Impact of COVID-19 on the provision for impairment on loans and advances

In response to COVID-19 and the Group's expectations of economic impacts, the key conditions and assumptions utilised in the Group's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined at note 15.3(b). At reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate economic overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Notwithstanding that credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods.

The Group is focused on supporting customers who are experiencing financial difficulties as a result of the COVID-19 global pandemic and has offered a range of industry-wide financial assistance measures including temporary loan repayment deferrals (principal and interest). In accordance with regulatory and industry guidance, temporary loan deferrals have been offered to business lending on a 6-month basis, and on a 3-month basis to retail lending, with an option to extend for a further 3 months post a customer check-in to reassess the customer's circumstances.

As per industry guidance, a payment deferral request does not automatically result in a significant increase in credit risk (**SICR**) which transitions an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL). For June 2020 the SICR assessment for individually rated business lending reflects the loan's master rating scale (**MRS**) at the time of the deferral. For all exposures (individually or portfolio rated) an assessment is made of the proportion of each portfolio expected to be SICR given the state of the economy and, to the extent this proportion exceeds the observed proportion, which is SICR, an extra provision is established to ensure this proportion receives a lifetime ECL. This approach ensures the volume of exposures in stage 2 reflects a forward-looking view of the economy and not just what is observable in customer data (such as arrears) at the reporting date.

As per regulatory guidance, exposures which are granted COVID-19 temporary financial assistance are not to be treated as being in arrears during the deferral period and not to be considered as Restructured under Prudential Standard APS220 *Credit Quality* (refer to note 29.1 (b) for further details). Accordingly, the Group's adopted accounting treatment is to pause counting days past due, until such time as the deferral period ends. Therefore, a SICR will not be triggered due to COVID-19 related deferrals, noting that in the ordinary course arrears are the primary driver of SICR for retail lending. Refer to note 37.12 (a) for further information in relation to the Group's accounting policy for determining a SICR event.

At reporting date, the gross carrying value of loans and advances that are subject to a COVID-19 financial assistance package total $4,828 million, comprised of retail lending ($3,763 million) and business lending ($1,065 million). Refer to note 37.6 (d) for the Group's accounting policy with respect to determining a loan modification.

(b) Sensitivity analysis

The impacts of COVID-19 have resulted in significant estimation uncertainty in relation to the measurement of the Group's ECL for loans and advances. The impacts of COVID-19 on consumers and businesses as well as the government stimulus packages deployed are unprecedented, accordingly significant adjustments to the ECL could occur in future periods as the full effects of COVID-19 are better understood.

Reported ECL

The ECL at reporting date of $255 million incorporates a base case (i.e. best estimate scenario) which reflects a sharp deterioration in forecast macroeconomic conditions driven by the significant restrictions and lockdowns that have been imposed since March 2020, followed by a fairly protracted recovery, beginning in 2021 ('reverse J' shaped recovery). Key macroeconomic indicators incorporated in the best estimate are outlined in the table below.

The Group calculates the ECL by considering a distribution of economic outcomes around the best estimate underlying scenario, with the best estimate reflecting the Group's view of the most likely economic scenario. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group determines collective provision only on the ECL under the best estimate forecast, or based on a limited number of discrete scenarios, it might maintain a level of collective provision that does not appropriately reflect the range of potential outcomes, including more severe downside events. To address this AASB 9 *Financial Instruments* (**AASB 9**) requires the ECL to be the probability weighted ECL outcome calculated for a range of possible outcomes.

In determining the Reported ECL a distribution of outcomes around the best estimate economic scenario is adopted for both probability of default (**PD**) and loss given default (**LGD**), taking into consideration observed variability in economic outcomes and collateral values. For example, the Group's Reported ECL calculation reflects the following outcomes modelled around the best estimate scenario:

- For PD, a 10 per cent probability that mortgage defaults over the next year are consistent with an increase in unemployment to 13.5 per cent, compared with the best estimate of an increase to 10.0 per cent; and
- For LGD, a 10 per cent probability that Queensland metro house prices fall in excess of 25 per cent over the next year, in comparison to the best estimate which reflects an 8.3 per cent fall. Similarly, the ECL calculation reflects a 10 per cent probability that commercial property prices fall in excess of 33 per cent over the next year, in comparison to the best estimate which reflects a 14.2 per cent fall.

Key macroeconomic information that has been utilised in the base case, and the downside sensitivity is summarised below:

	Reported ECL %		Downside sensitivity ECL %	
	June 20	June 21	June 20	June 21
GDP growth – annual change	(7.3)	6.8	(7.9)	(0.5)
	June 21	June 22	June 21	June 22
Property prices – residential – annual change	(8.3)	4.6	(11.0)	1.0
Property prices – commercial – annual change	(14.2)	3.5	(17.0)	0.0
	Dec 20	June 21	Dec 20	June 21
Unemployment rate	10.0	9.0	11.0	11.5

The periods presented above reflect the peak/trough for the respective key macroeconomic information.

How we see it

Given the level of uncertainty and the sensitivity of judgements and estimates, it is important to disclose the key assumptions used and judgements made in estimating ECLs and in hedge accounting, as well as the impact of any relief measures provided to customers.

4. Impairment assessment of non-financial assets

4.1 Existence of impairment indicators

With the recent developments in 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. As many entities might not be permitted under IAS 36 *Impairment of Assets* to use the most recent detailed calculation of the recoverable amount in the impairment test made in a preceding period, additional disclosures may be useful when entities conclude otherwise.

4.2 Disclosure

It is important for entities to provide detailed disclosures of the assumptions made, the supporting evidence and the impact of a change in the key assumptions (i.e., a sensitivity analysis).

Given the current uncertain environment, it is important for entities to provide detailed disclosures of the assumptions made, the supporting evidence and the impact of a change in the key assumptions (i.e., a sensitivity analysis). This is especially the case as they will have likely been materially updated compared to the key assumptions, judgements and estimates applied in the previous 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.

The non-financial assets that are likely to be subject to such impairment triggers include: property, plant and equipment; intangible assets (including those with indefinite lives); and goodwill. Whilst inventories are not covered by IAS 36, entities will need to consider the impact of reductions in the net realisable value of inventories. Refer to section 13 for further details.

The extent of the disclosures made is a matter of judgement. The greater the impact,the greater the need for more extensive disclosures. The global airline industry, for example, is one of the hardest hit sectors. Many airlines provide detailed disclosures on their impairment assessment while the disclosures of other less-affected entities may not be as extensive.

Qantas Airways Limited (Qantas) disclosed that management assessed that there were indicators of impairment as a result of the significant impact of Covid-19. Qantas has noted the steps it has undertaken in response.

Extract 15: Qantas Airways Limited *Australia*

25 IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS AND RELATED COSTS

(A) IMPAIRMENT TESTING OF CASH GENERATING UNITS

Given the significant impact of COVID-19, Management has assessed that there are indicators of impairment of the Group's CGUs and has undertaken the following:

- Reassessed the identification of the Group's CGUs
- Completed an impairment test of the Group's CGUs
- Tested specific individual assets for impairment where they are not expected to contribute to the cash flows of the CGUs under the Recovery Plan.

Qantas performed an impairment test for individual assets that are not expected to contribute to the cash flows of a cash-generating unit (CGU). Some of its aircraft, the A380 fleet, are expected to be grounded for the foreseeable future but do not qualify as assets held for sale. Given the significant

uncertainty around the return to service of these aircraft, they have been tested for impairment outside the CGU to which they originally belonged.

Extract 16: Qantas Airways Limited *Australia*

Impairment Test of Individual Assets (where not expected to contribute to the cash flows of the CGUs under the Recovery Plan)

Aircraft and related spares, inventory and contractual commitments

With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future. The A380 fleet, however, does not meet the requirements to be classified as Assets Held for Sale as they are not available for sale. Given the significant uncertainty around the return to service of the fleet, the cash flows of the Qantas International CGU within the Recovery Plan do not include cash flows relating to the A380 assets. The A380 fleet has therefore been tested for impairment outside of the Qantas International CGU.

The recoverable amount of the A380 fleet was determined using a fair value less costs of disposal model. The fair value less costs of disposal was estimated based on valuations provided by two external and independent aircraft valuers (AVAC and AVITAS), translated at 30 June 2020 AUD/USD exchange rates. The Group has made necessary adjustments to these valuations for the level of maintenance life remaining on the aircraft.

The recoverable amount of the A380 fleet, including spares and inventory and the impact of onerous contractual obligations is below their carrying value. The carrying value has been impaired to the recoverable amount.

The Group has also announced the early retirement of the remaining 747 fleet. The 747 fleet has been recognised as Assets Held for Sale as at 30 June 2020 and impaired to their fair value less cost to sell as their sale is highly probable.

The impaired carrying value of the A380 fleet and the 747 fleet are not allocated to the Qantas International CGU and therefore have no further impact on the assessment of impairment for the remaining Qantas International CGU assets outlined below.

In terms of its impairment test of its CGUs, Qantas disclosed the significant assumptions it made in determining the recoverable amount based on their value in use. Qantas also described the quantitative impact of the impairment assessment for each of the assets and CGUs tested for impairment, as well as a sensitivity analysis.

Extract 17: Qantas Airways Limited *Australia*

Impairment Test of CGUs

The impairment test for CGUs includes the allocation of assets to identified CGUs and the determination of the recoverable amount of the CGU based on their value in use. Outlined below are the significant assumptions applied in the determination of recoverable amount.

Significant Assumption	How it was Determined
Calculation of Recoverable Amount	The recoverable amounts of CGUs were determined based on their value in use. The value in use was determined by discounting the future cash flows forecast in the Recovery Plan.
Individual Assets Tested Separately	Assets that have been tested for impairment individually are not allocated to CGUs. As outlined above, the impaired carrying value of the A380 fleet and 747 fleet are not allocated to the Qantas International CGU and therefore have not impacted the assessment of impairment for the remaining Qantas International CGU assets.
Recovery Plan	The Group's Recovery Plan was developed with reference to expected demand scenarios domestically and internationally. The Recovery Plan includes the strategy to rightsize and restructure the business to accelerate recovery and to partially offset revenue lost as a result of the impact of COVID-19. The Recovery Plan targets $15 billion in benefits over three years comprising: – $2.4 billion of restructuring benefits, with some benefits to continue to flow in future years – Initial $2.6 billion rightsizing initiatives to reduce the workforce and supplier costs whilst activity is low – $4.0 billion in direct savings as a result of activity reductions – $6.0 billion of activity-based fuel savings The long-term annual ongoing restructuring benefit to the Group of the Recovery Plan is estimated to be $1 billion from FY23 onwards. The Group estimates total costs of $1 billion to deliver the ongoing restructuring and rightsizing benefits. The restructuring plan includes a range of capital expenditure and fleet decisions to improve cash flow such as: – Qantas' A380 fleet (12 aircraft) will be grounded for the foreseeable future – A321neo and 787-9 fleet deliveries have been deferred to meet the Group's requirements
Period of Cash Flows Forecast	The Group's Recovery Plan is a three-year plan. For the purposes of performing an impairment test under AASB 136, the Group has made adjustments to the Recovery Plan as necessary for committed transformation initiatives at 30 June 2020. The third year of the Recovery Plan has been used to inform the determination of the terminal year. Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flow forecast under the Recovery Plan for these uncertainties rather than adjusting the discount rate.
Cash Flows	Cash flows were projected based on the Board-approved Recovery Plan. To determine the terminal values for each CGU, a constant growth rate of 2.5 per cent per annum was used by Management where appropriate. This assumption is considered reasonable by Management, as it does not exceed the long-term average growth rate for the industry. Cash outflows include capital and maintenance expenditure for the purchase of aircraft and other property, plant and equipment. These cash outflows do not include capital expenditure that enhances the current performance of assets and related cash flows have been treated consistently.
Impact of COVID-19 on Substantial Operations	As the impact of COVID-19 continues to evolve, it is extremely challenging to predict the full extent and duration of the impact on the Group's operations. Under the Group's Recovery Plan, the Group has assumed that domestic operations will recover to their pre-COVID-19 levels by the end of 2020/21 financial year. International recovery is anticipated to be slower, with only approximately 50 per cent of pre-COVID-19 capacity expected in the 2021/22 financial year. Changes in the duration and impact of COVID-19 may change these assumptions.
Discount Rate	A pre-tax discount rate of 10 per cent per annum has been used in discounting the projected cash flows of the CGUs, reflecting a market estimate of the weighted average cost of capital of the Qantas Group (2019: 10 per cent per annum). Given the uncertainty of the impact and timing of COVID-19, the Group has adjusted the cash flows under the Recovery Plan for these uncertainties rather than the discount rate.

Significant Assumption	How it was Determined
Foreign exchange rate used	AUD/USD: 0.69
Sensitivity to Significant Changes in Assumptions	Pre-COVID-19, the Group was reporting ROIC in excess of the Group's Weighted Average Cost of Capital. For example, the 12-month ROIC as at 31 December 2019 was 19.6 per cent, and as at 30 June 2019 was 19.2 per cent, compared to the Group's WACC of 10 per cent. This, combined with an assessment of other factors under AASB 136, evidenced that pre-COVID-19 there were no indicators of impairment of the Group's CGUs. *Sensitivity to changes in cash flows (CGUs other than Jetstar CGUs in Asia)* The terminal year in the impairment test is informed by reference to pre-COVID-19 performance of the CGUs and has the most material impact on the determination of the recoverable amount and of the surplus between the recoverable amount and carrying value of CGUs. The earlier years in the Recovery Plan, while impacting the measurement of the recoverable amount, do not materially impact the surplus identified. As such, reasonable possible changes in the short-term to the timing of domestic and international recovery are unlikely to result in impairment of the CGUs, assuming that the overall recovery expectations of returning to pre-COVID-19 levels remain. The terminal value cash flow is in excess of the break-even cash flow and reasonable possible changes in this assumption do not result in impairment. *Sensitivity to changes in cash flows (Jetstar CGUs in Asia)* As outlined below, the Group recognised impairment of the Goodwill and indefinite lived intangible assets in the Jetstar Asia CGU. This impairment resulted from the recoverable amount being below the carrying value of assets allocated to the CGU. Reasonable possible changes in forecast cash flows would further reduce the estimated recoverable amount below the remaining carrying value of the CGU. Goodwill and indefinite lived intangible assets have been fully impaired, so any further impairment would be assessed for allocation to Property, Plant & Equipment. AASB 136 requires that any allocation of CGU impairment should not reduce the asset below its individual fair value less costs of disposal. Given the remaining Property, Plant & Equipment assets in this CGU, any allocation of impairment under these sensitivity scenarios would not be expected to be material to the Group. The carrying values of the Jetstar Pacific and Jetstar Japan CGUs at 30 June 2020 are nil.

(C) RESULTS OF THE GROUP'S IMPAIRMENT TEST

i. Impairment of Individual Assets (where not expected to contribute to the cash flows of the CGUs under the Recovery Plan)

The Group recognised an impairment of $1,254 million (2019: nil) in respect of identified specific assets and liabilities which do not contribute to the cash flows of the Group's CGUs under the Group's Recovery Plan. The remaining carrying value of these assets is not included in the assets and liabilities of the CGU impairment tests. As a result of the impairment recognised in respect of the A380s the remaining carrying value of the aircraft and engines (including related engineering spares and inventory) is $611 million at 30 June 2020.

ii. CGU Impairments

The Group recognised an impairment of $73 million (2019: nil) in respect of the Goodwill and indefinite lived intangible assets recognised in the Jetstar Asia CGU. The Group recognised an impairment of $25 million in relation to its investment in Jetstar Pacific due to the announced exit of the business reducing the carrying value of Jetstar Pacific to nil.

No impairment was recognised within the Qantas Domestic, Qantas International, Qantas Loyalty, Qantas Freight, Jetstar Australia/New Zealand and Jetstar Japan CGUs during the year ended 30 June 2020 (2019: nil).

In line with the requirements of IAS 36, Webjet Limited (Webjet) disclosed both the assumptions used in the value in use calculation and then disclosed that headroom in the B2B cash-generating unit is modest, and reasonably possible changes in assumptions above may result in impairment. Webjet then discussed how the headroom found in the base case is sensitive to changes in the assumptions.

Extract 18: Webjet Limited *Australia*

The following are the key assumptions applied in calculating the recoverable amount:

Key assumptions used for value-in-use calculations

	B2C Travel	B2B Travel
Resumption of domestic travel	1H21	1H21
Resumption of international travel	2H21	2H21
Vaccine available	Mid 2021	Mid 2021
Year expected to reach pre-covid profitability levels	2023	2023
5 year CAGR based on pre-covid profitability	0 to 2%	5 to 8%
Terminal growth rate	2%	2%
Tax rate	30%	10%
Post tax discount rate	12%	11%

Results show that the B2B and B2C recoverable amounts determined based on the assumptions above support the carrying value and no impairment is required.

The B2B recoverable amount headroom is modest, and reasonably possible changes in assumptions above may result in impairment as noted under B2B sensitivities below.

B2B sensitivities

The impairment review carried out for B2B, adopting the methodology and assumptions set out above, concluded that the recoverable amount supporting the carrying amount and no impairment charge required. However, the recoverable amount is sensitive to changes in certain assumptions as follows:

	Headroom	Impairment charge
Base case	$145 million	Nil
Increase in discount rates by 140bps	Break even	Break even
Revenue growth rates reduced by 5%	Break even	Break even
Reduce growth rates by 5% plus delay recovery six months	Nil	$107 million
Reduce growth rates by 5% plus delay recovery 12 months	Nil	$222 million

Delay in recovery reflects the delay in reaching pre-COVID-19 profitability levels driven by delays in resumption of domestic and international travel and trading. Six month delay means pre-COVID-19 profitability levels achieved in mid 2024, and 12 months delay means pre-COVID-19 profitability levels achieved in late 2024.

Reasonable changes in assumptions are not expected to result in an impairment of the B2C cash generating unit.

Whilst the above disclosure examples are mainly quantitative, it is important that entities disclose assumptions and uncertainties that exist due to Covid-19. Barratt Developments plc described how the annual impairment test of its intangible asset with an indefinite life (the brand – David Wilson Homes) – was impacted by Covid-19. It disclosed how it determined the value in use, noting the uncertainties that exist followed by the key assumptions made in the forecasts. This was followed by a sensitivity analysis that disclosed the impact of changes to the discount rate and probability of adverse scenarios as the key variables in the value in use calculations as well as the headroom in the impairment test.

Extract 19: Barratt Developments plc *United Kingdom*

4.2.3 Impairment of goodwill and indefinite life brands

The Group conducts an annual impairment review of goodwill and its indefinite life brand, David Wilson Homes, together for the cash-generating unit to which it is allocated, being the housebuilding business.

Impairment of goodwill and indefinite life brands

The impairment review for the goodwill of the housebuilding business and the Group's indefinite life brand requires an estimation of the value-in-use of the housebuilding business. The value-in-use calculation requires an estimate of the expected future cash flows from the housebuilding business, including the anticipated growth rate of revenue and costs, and requires the determination of a suitable discount rate to calculate the present value of the cash flows. The sensitivity of the valuation of goodwill and brands to changes in expectations is set out in this note.

An impairment review was performed at 30 June 2020 by comparing the value-in-use of the housebuilding business to the carrying value of its tangible and intangible assets and allocated goodwill.

The value-in-use was determined by discounting the risk-adjusted expected future cash flows of the housebuilding business. The first year of cash flows were determined using the Group's approved detailed site-by-site forecast. The cash flows for the second to the fifth years were determined using Group level internal forecast cash flows based upon expected volumes, selling prices and margins, taking into account available land purchases and work-in-progress levels. The cash flows for year six onwards were extrapolated in perpetuity using an estimated growth rate of 1%, based upon the historical long term growth rate of the UK economy.

COVID-19 has heightened the inherent uncertainty in the prospects for the wider UK economy and housing market in the medium term. The Group's financial forecasts reflect the outcomes that Management consider most likely, based on the information available at the date of signing of these Financial Statements. The key assumptions underlying the forecasts are:

- Expected changes in selling prices for completed houses and the related impact on operating margin: these are determined on a site-by-site basis for the first year dependent upon local market conditions and product type. For years two to five, these have been estimated at a Group level based upon past experience and expectations of future changes in the market, taking into account external market forecasts.
- Sales volumes: these are determined on a site-by-site basis for the first year dependent upon local market conditions, land availability and planning permissions. For years two to five, these have been estimated at a Group level based on past experience and expectations of future changes in the market, taking into account external market forecasts.
- Expected changes in site costs to complete: these are determined on a site-by-site basis for the first year dependent upon the expected costs of completing all aspects of each individual development. For years two to five, these have been estimated at a Group level based on past experience and expectations of future changes in the market, taking into account external market forecasts.

The forecasts have been sensitised to reflect scenarios based on the Group's principal risks and the downside prospects for the UK economy through adjustments to the key assumptions. The adverse scenarios modelled are the Directors' assessment of a reasonable worst-case scenario, being that used to assess the Group's ability to continue as a going concern in note 1.3, and a scenario in which the Group's risks manifest to an intermediate level. The risk-adjusted expected future cash flows are the weighted average of these possible economic outcomes. The value-in-use constitutes the present value of these cash flows through the application of an appropriate discount rate.

The key variables for the value-in-use calculations were:

- Discount rate: this is a pre-tax rate reflecting the Group's target capital structure, current market assessments of the time value of money and risks appropriate to the Group's housebuilding business. In the prior year, uncertainty in the Group's cash flows was reflected through an adjustment to the discount rate. In response to COVID-19, Management have reflected future economic uncertainty in the risk-adjusted cash flows, giving a more accurate representation of the risks specific to the Group. As this risk has been reflected in the underlying cash flows, no adjustment has been made to the discount rate. Accordingly, a rate of 10.0% (2019: 15.2%) is considered by the Directors to be the appropriate pre-tax discount rate.
- Probability of variance in assumptions: Management consider the assumptions applied in the Group's forecast to represent the most likely outcomes. To reflect ongoing uncertainty, heightened by COVID-19, the likelihood that actual performance will differ from these assumptions has been estimated at a Group level with reference to external market forecasts and the Group's current trading performance. A change in the assigned probabilities changes the weighting of the scenarios in the calculation of the expected cash flows.

The result of the value-in-use exercise concluded that the recoverable value of goodwill and intangible assets exceeded its carrying value by £1,182.5m (2019: £2,095.6m) and there has been no impairment. The fall in headroom is due to a reduction in forecast completions following COVID-19.

If the value-in-use is determined using only the reasonable worst case cash flows, a full impairment of goodwill and indefinite life brands is required. The sensitivity of the recoverable amount of goodwill to changes in the discount rate and the probabilities of the occurrence of adverse scenarios is shown below.

	+100 bps			-100 bps			Change required
Variable	**Change in value £m**	**Change in value %**	**Revised headroom £m**	**Change in value £m**	**Change in value %**	**Revised headroom £m**	**to reduce headroom to £nil**
Discount rate	(664.0)	(11.1%)	518.5	830.6	13.9%	2,013.0	2.0%
Probability of adverse scenarios	(117.5)	(2.0%)	1,065.0	117.5	2.0%	1,300.0	10.1%

How we see it

Covid-19 has significantly increased the uncertainties that entities face when assessing to what extent assets or CGUs are impaired. This also includes the assumptions used in the calculation of the recoverable amount of non-financial assets. It is, therefore, important that management use reasonable and supportable assumptions and provide detailed disclosure of the assumptions and sensitivities.

5. Government grants

Governments in many countries have introduced (or are expected to introduce) measures to assist entities. Careful judgement is required in determining whether or not these measures are to be accounted for as government grants.

In an attempt to mitigate the impact of the Covid-19 pandemic, governments in many countries have introduced measures to aid entities. Whilst some of these measures are within the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, others are not.

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

Corporate Travel Management Limited disclosed its accounting policy for government grants related to income which have been recognised in other income. The nature of the government grants, including any conditions or other contingencies attached to them, was also disclosed.

Extract 20: Corporate Travel Management Limited *Australia*

Note 5. Other income

This note provides a breakdown of the items included in other income.

	2020 $'000	2019 $'000
Net foreign exchange gain	4,071	1,327
Government grants	7,732	-
Other	21,738	1,417
Other Income	**33,541**	**2,744**

Income from Government grants as a result of the COVID-19 pandemic have been recognised in other income. The Group has received government assistance for operations in Australia, New Zealand, Singapore, Hong Kong and the United Kingdom. Regional assistance packages from which the Group benefited from included JobKeeper (Australia), Employer Wage Subsidy Scheme (New Zealand), Job Support Scheme (Singapore), Employment Support Scheme (Hong Kong) and the Job Retention Scheme (United Kingdom). There are no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit directly from any other forms of government assistance. Government grant income is offset by the cost of retaining additional staff. In the Asia and Europe regions, access to the grants has been made possible by retaining these staff.

…

Accounting Policy

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. If conditions are attached to the grant which must be satisfied before the Group is eligible to receive the contribution, the recognition of the grant as revenue will be deferred until those conditions are satisfied.

…

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, and provide users of financial statements with an understanding of both the economic and the accounting impacts through transparent disclosures.

6. Income taxes and other taxes

6.1 Stimulus measures

A range of economic stimulus packages have been announced by governments around the world. Recent government responses to Covid-19 have included income tax concessions and other rebates. Entities need to consider the impacts of these legislative changes on their accounting for income taxes.

6.1.1 Income taxes

IAS 12 *Income taxes* should be applied in accounting for income taxes, which includes:

- All domestic and foreign taxes which are based on taxable profits
- Taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity

IAS 12 does not apply to accounting for government grants, which fall within the scope of IAS 20, or to investment tax credits.

IAS 12 does not apply to accounting for government grants, which fall within the scope of IAS 20 or investment tax credits. Taxes other than income taxes are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and, in particular, IFRIC 21 *Levies,* or by reference to the accounting standard most closely related to the item subject to such a non-income tax (such as IAS 19 *Employee Benefits*, in the case of payroll taxes).

The classification of a tax as an income tax affects its accounting treatment in several key respects, as IAS 12 provides specific guidance on the recognition, measurement, presentation and disclosure of deferred taxes. In addition, IFRIC 23 *Uncertainty over Income Tax Treatments* provides specific guidance on accounting for uncertainties over income tax treatments.

Fonterra Co-operative Group Limited (Fonterra) disclosed the impact of a stimulus measure that affects income taxes within the scope of IAS 12. Fonterra explained that the Covid-19 relief package in New Zealand has reintroduced depreciation deductions for certain qualifying buildings, which gives rise to deferred tax assets.

Extract 21: Fonterra Co-operative Group Limited *New Zealand*

E) COVID-19 PANDEMIC

The Group's global supply chain has remained resilient throughout the Covid-19 pandemic. The Group's diverse product range and customer base have helped to minimise the impact on the business. Milk has continued to be collected and processed in New Zealand, Australia and Chile.

To ensure ongoing impacts of Covid-19 have been appropriately reflected in the financial statements, Fonterra has assessed the impact of Covid-19 on the Group's assets and liabilities.

- The assumptions about the future impacts of the Covid-19 pandemic have been considered when measuring investments classified as held for sale.
- The forecasts used for impairment testing include Fonterra's best estimates of the potential future impacts from the Covid-19 pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes, weighted by their expected occurrence.
- As part of the New Zealand Government's Covid-19 relief package tax depreciation deductions have been reintroduced for certain qualifying buildings owned by the Group. This has resulted in an increase to the deferred tax assets of $30 million. It has also resulted in a reduction to tax expense of $30 million.
- Debtor collectability continues to be closely monitored. A material change in the provision for impairment of trade receivables as a result of Covid-19 has not been identified.
- No onerous contracts or additional provisions have been recognised as a direct impact of Covid-19.
- Fonterra has not applied for the wage subsidy scheme available from the New Zealand Government.

The Group continues to monitor the risks and the ongoing impacts from Covid-19 on the business.

6.1.2 Taxes outside the scope of IAS 12

Harmony Gold Mining Company Limited disclosed various stimulus measures from which it has benefitted, including a carbon tax delay and a tax holiday on the skills development levy.

Extract 22: Harmony Gold Mining Company Limited *South Africa*

2. COVID-19 IMPACT continued

Taxation

In response to challenges faced by companies during the COVID-19 pandemic, governments have implemented various stimulus packages to provide some relief to companies. In South Africa, various taxes have been delayed, such as carbon tax, where the first payment has been postponed to October 2020. In addition, a tax holiday of the skills development levy was introduced.

As noted above, other taxes fall within the scope of IAS 19, IAS 20, IAS 37 and IFRIC 21, depending on the exact facts and circumstances.

Although IFRIC 23 was not specifically intended to deal with the current Covid-19 pandemic in mind, it provides helpful guidance that entities may wish to consider.

6.2 Recoverability of deferred tax assets

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 Covid-19 existed as at the end of the reporting period. 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.

In applying their judgement, entities may wish to consider IFRIC 23. Although IFRIC 23 was not specifically intended to deal with tax law changes or with the

current Covid-19 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 likely to be accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes.

6.2.1 Derecognition of deferred tax assets

Major Drilling Group International Inc. disclosed that due to the uncertainty caused by COVID-19, during the year, it has derecognised a portion of its deferred income tax assets.

Extract 23: Major Drilling Group International Inc. *Canada*

12. INCOME TAXES

…

Due to the short-term uncertainty caused by COVID-19, during the year, the Company has de-recognized a portion of its deferred income tax assets related to non-expiring losses of $15,902 and expiring losses of $288, which were being carried forward in Canada, Colombia, Mozambique and the Philippines for a total of $16,190 (2019 - $1,613). The Company recognized $4,589 (2019 - $15,745) of net deferred income tax assets in Canada that have had a loss for tax purposes in 2020 and 2019. In evaluating whether it is probable that sufficient taxable income will be generated to realize the benefit of these deferred income tax assets, the Company considered all available evidence, including forecasts, business plans and appropriate available tax planning measures.

6.2.2 Uncertainty around availability of future taxable profits

IAS 12 requires an entity to disclose the nature of the evidence supporting the recognition of deferred tax assets when the utilisation of the recoverability of the asset is dependent on future taxable profits.

Vicinity Limited (Vicinity) recognised a deferred tax asset, primarily relating to historical tax losses. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable income to utilise those tax losses. Covid-19 has increased the uncertainty in determining certain key assumptions underlying this assessment. The key assumptions subject to this increased uncertainty include future property and development management fee revenues, which are linked to the performance and value of the investment properties under management.

Extract 24: Vicinity Limited *Australia*

Significant accounting judgements, estimates and assumptions

…

Item	Area of judgement or estimation	Note
…		
Recognition of deferred tax assets	The Company recognises a deferred tax asset, primarily relating to historical tax losses. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable income by the Company to utilise those tax losses. Estimation is required in forecasting future taxable income and judgement is applied in assessing an appropriate forecast period. COVID-19 has caused increased uncertainty in determining certain key assumptions within the assessment of the future taxable income of the Company, particularly future property, development and funds management fee revenues, which are linked to the performance and value of the investment properties under management by the Company.	3
…		

3. Taxes continued

(c) Movement in temporary differences

Impact of the COVID-19 pandemic

The COVID-19 pandemic has caused increased uncertainty in determining certain key assumptions within the assessment of future taxable income of the Company upon which recognition of deferred tax assets is assessed. Key assumptions subject to this increased uncertainty include future funds, property and development management fee revenues, which are linked to the performance and value of the investment properties under management by the Company.

…

6.3 Effective tax rate reconciliation

IAS 12 requires an explanation of the relationship between tax expense (income) and accounting profit in the form of a reconciliation. This reconciliation takes as its starting point the (substantively) enacted applicable tax rate that may have been affected by stimulus measures. In addition, the relative size of the reconciling items themselves is affected by the profitability of the entity.

Barratt Developments plc noted that the pause in activity as a result of Covid-19 reduced the profit before tax, which increases the proportional impact of the adjustments in its effective tax rate reconciliation.

Extract 25: Barratt Developments plc *United Kingdom*

2.6 Tax CONTINUED

2.6.1 Tax recognised in the Income Statement

…

Factors affecting the tax charge for the year

The tax rate assessed for the year is lower (2019: lower) than the standard effective rate of corporation tax in the UK of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
Profit before tax	**491.8**	909.8
Profit before tax multiplied by the standard rate of corporation tax of 19.0% (2019: 19.0%)	**93.4**	172.9
Effects of:		
Other items including non-deductible expenses	**4.8**	0.5
Additional tax relief for land remediation costs	**(1.3)**	(2.0)
Adjustment in respect of previous years	**(8.9)**	(1.5)
Adjustment for post-tax profits of certain JVs included in Group profit before tax	**–**	(0.1)
Impact of change in tax rate on deferred tax liability	**1.1**	0.6
Tax charge for the year	**89.1**	170.4

Legislation was substantively enacted during the year to repeal the reduction of the main corporation tax rate, thereby maintaining 19.0% throughout the financial year. Accordingly, the rate change includes the re-measurement of opening temporary differences to 19.0% where these were previously measured at between 17.0% and 19.0% depending on the timing of expected reversal.

Completion volumes were significantly reduced by the Group's decision to pause activity in response to COVID-19, reducing profit before tax for the financial year. Adjustments in respect of previous years reflect the latest estimates and assumptions and truing up to final corporation tax computations. The proportional impact of those adjustments has a greater impact on this year's effective tax rate due to the lower profit before tax.

How we see it

Entities need to carefully assess any new tax legislation to determine whether the tax relief or rebates received from the government fall within the scope of IAS 12 (income taxes), IAS 20 (government grants), or IAS 19 (payroll taxes). In addition, entities must consider if they need to derecognise deferred tax assets as a result of the deterioration of the economic outlook in their forecasts of taxable profits and reversals of taxable temporary differences.

7. Liabilities from insurance contracts

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.

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 Covid-19. 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 for capital disclosures as capital ratios may come under pressure due to a fall in asset values and stressed capital requirements.

While uncertainties over the impact of Covid-19 remain, they will need to be disclosed together with any potential effects. Such disclosure would need to include an explanation of events that happened after the reporting period, both for conditions that existed at the end of the reporting period, and for conditions that arose after the reporting period.

NIB Holdings Limited (NIB) stated in its risk management note that " ... the impact of the COVID-19 pandemic on the global economy has resulted in increased insurance and financial risk to the Group. This heightened level of uncertainty and risk is managed as part of the Group's 'Risk Management Framework." NIB provided details of the key insurance risks.

Extract 26: NIB Holdings Limited *Australia*

Category	Risks
Insurance risks	Pricing Claims inflation Risk equalisation (Australia only)

NIB disclosed the steps which were undertaken to estimate "the provision for deferred and suspended claims". This was the first time such a provision had been recognised as it resulted from "the temporary closure of elective surgery and reduced access to ancillary benefits" as governments ensured that there were sufficient hospital beds for Covid-19 patients in the first wave of the pandemic.

Extract 27: NIB Holdings Limited *Australia*

18. CLAIMS LIABILITIES continued

b) Provision for deferred and suspended claims

i) Critical accounting judgements and estimates

On 12 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a global pandemic. Due to the temporary closure of elective surgery and reduced access to ancillary benefits, Private Health Insurers (PHIs) in both Australia and New Zealand experienced unusually low claims volumes in March, April and May 2020.

Given the lower claims activity, the Group believes it has an obligation to recognise a provision for deferred claims based on a present constructive obligation resulting from a past event under relevant accounting standards. In nib's case, the event (COVID-19) which occurred in March 2020 has triggered the deferral of claims activity and benefits that would have otherwise been provided to members. If cover remains in place, a responsibility exists to provide for these claims that would have ordinarily been incurred under normal circumstances. nib members with continuing cover would have had an expectation to use and therefore claim on hospital, surgical and ancillary services had the pandemic not arisen, notwithstanding the backlog of activity. The provision is therefore management's estimate of the percentage of claims which did not occur in FY20 that are anticipated to be deferred to FY21.

In estimating the provision, three key steps were undertaken:

1. **Estimating the gross reduction in claims due to temporary closure of elective surgery and reduced access to ancillary benefits.** Incurred claims estimates produced at 30 June 2020 as part of the year end outstanding claims provisioning process were compared to the forecast produced leading up to March 2020 when COVID-19 impacted claims activity. The difference between forecast and actual incurred was calculated by modality (claim type) to estimate the financial impact of COVID-19 across the March to June 2020 period.
2. **Estimating risk equalisation levy impact (Australian claims only).** The risk equalisation impact of COVID-19 was estimated by applying consistent ratios used for the risk equalisation amounts in outstanding claims.
3. **Applying a deferral rate.** Certain factors need to be considered when assessing that not all estimated savings translate to a claims payment backlog at balance date. For example:
   a. there has continued to be lapses of memberships in the normal course of business;
   b. some types of private health benefits, particularly in the ancillary category, are less likely to have been deferred;
   c. catch up of benefits between ancillary and hospital categories differs due to capacity in facilities, lead time to arrange procedures etc.

   nib's deferral rates have been estimated as follows:

   80% of Australian claims reduction in 2020 (representing 85% hospital and 70% ancillary estimated claims reduction); and
   90% of New Zealand (estimated hospital and ancillary claims savings)

   to be deferred on the basis that this represents the 2021 financial year claims which are expected to be inflated above normal trends due to COVID-19.

Risks and uncertainties have been taken into account in the measurement of the liability and are reflected in the key inputs and judgements. The key risks associated in estimating the components of the provision is the under/over estimation of the claims deferral rate and to a lesser extent, the under/over estimation of the claims savings (net of risk equalisation impact).

This provision is expected to fully unwind over the next twelve months based on expected claims activity and payment patterns.

Insurance Australia Group Limited (IAG) disclosed the impact of Covid-19 on its outstanding claims liability within the critical accounting estimates and judgements section of the policy disclosures. IAG highlighted the high degree of uncertainty and advised readers to 'carefully consider these disclosures in light of the inherent uncertainty …'.

Extract 28: Insurance Australia Group Limited *Australia*

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Group has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims liability, recoverable amount assessments of non-financial assets, fair value measurement of investments and expected credit losses for both non-insurance and insurance-related receivables.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

- Outstanding claims liability

IAG's insurance portfolio has experienced several impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. The motor portfolio has been impacted through favourable claim frequency as a result of mobility restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

Where potential COVID-19 claim impacts remain highly uncertain, IAG has recognised an additional net outstanding claims provision of $106 million in relation to its Australian business. This provision has been estimated on a probability-weighted basis and spans potential business interruption, landlords' and other insurance class effects, including the estimated impact of an economic downturn on the future cost of settling long tail claims. The key consideration in respect of business interruption coverage is the legal challenge in relation to the interpretation of select contract wordings. Two issues have been identified by the Australian general insurance industry. The first relates to policy wordings that reference the Quarantine Act. The second relates to the application of prevention of access extensions in the context of a pandemic. These are industry-wide matters that are expected to be assessed through legal test cases over the coming months. Notwithstanding the view held by IAG and the general insurance industry, the litigation process can lead to unpredictable results.

In establishing the COVID-19 specific element of the net outstanding claims liability, significant judgement has been exercised to derive an estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. Given the extent of the uncertainty being faced, the range of potential financial outcomes in relation to these matters is unusually wide. As a result, a substantial part of the provision reflects a risk margin. Refer to Note 2.2 for further details on the net outstanding claims liability.

In addition to the element reflected in the net outstanding claims provision, any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of the Group's regulatory capital position. Refer to Note 2.4 for further details on adequacy of the unearned premium liability.

The table below summarises the ways in which the various elements of the COVID-19 specific provisioning have been reflected within these financial statements. All values are calibrated to a 90% probability of adequacy (PoA) and are shown net of related reinsurance recoveries but before tax:

	2020 $m	DESCRIPTION	REFERENCE
Net outstanding claims liability	106	Probability-weighted view across impacted classes of business (as described above). The majority of this provision relates to potential business interruption exposure, and includes the related risk margin.	Note 2.2
Net premium liabilities	159	Present value of probability-weighted future cash flows that attach to the unearned premium liability. Not reflected in the balance sheet but factored into both the liability adequacy test and regulatory capital calculation at 30 June 2020.	Note 2.4 Note 3.1
Total insurance liabilities	265		

IAG identified and disclosed the ranges for key actuarial assumptions that were used in the measurement of outstanding claims, as shown below:

Extract 29: Insurance Australia Group Limited *Australia*

ASSUMPTION	AUSTRALIA	NEW ZEALAND
2020		
Discounted average term to settlement	**1.97 years**	**0.92 years**
Inflation rate	**0.0-4.3%**	**0.9%**
Superimposed inflation rate	**0.0-5.0%**	**0.0%**
Discount rate	**0.2-3.5%**	**0.0-1.4%**
Claims handling costs ratio	**4.3%**	**5.0%**
2019		
Discounted average term to settlement	2.06 years	1.03 years
Inflation rate	0.0-4.3%	2.2%
Superimposed inflation rate	0.0-5.0%	0.0%
Discount rate	0.9-3.5%	1.5-2.2%
Claims handling costs ratio	4.4%	4.9%

Furthermore, the company provided a sensitivity analysis of the impact that changes in the assumptions would have on the net outstanding claims liability.

Extract 30: Insurance Australia Group Limited *Australia*

E. SENSITIVITY ANALYSIS

The impact on the divisional net outstanding claims liabilities (net of reinsurance recoveries) before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes, and without regard to other balance sheet changes that may occur simultaneously. The movements are stated in absolute terms where the base assumption is a percentage or average term.

	MOVEMENT IN ASSUMPTION	AUSTRALIA	NEW ZEALAND
		$m	$m
2020			
Discounted average term to settlement	**+10%**	**(4)**	**-**
	-10%	**4**	**-**
Inflation rate	**+1%**	**75**	**4**
	-1%	**(72)**	**(4)**
Discount rate	**+1%**	**(75)**	**(4)**
	-1%	**80**	**5**
Claims handling costs ratio	**+1%**	**92**	**7**
	-1%	**(92)**	**(7)**
2019			
Discounted average term to settlement	+10%	(9)	(1)
	-10%	9	1
Inflation rate	+1%	79	4
	-1%	(76)	(4)
Discount rate	+1%	(79)	(4)
	-1%	84	4
Claims handling costs ratio	+1%	88	6
	-1%	(88)	(6)

How we see it

It is important that insurance entities provide explanations of the uncertainties caused by the evolving nature of Covid-19. The impact on insurance entities is expected to be much broader than the effect on the accounting for insurance liabilities, which means that disclosures in respect of other requirements may also be impacted.

8. Leases

It is important that entities determine whether any changes to the terms and conditions of a lease arrangement meet the definition of a lease modification, as this will impact accounting and disclosures.

It is important that entities determine whether any changes to the terms and conditions of a lease arrangement meet the definition of a lease modification under IFRS 16 *Leases*, as this will drive the necessary disclosures. In response to many questions about the application of IFRS 16 to rent concessions granted as a result of Covid-19, the IASB released an educational document on accounting for leases in April 2020 and an amendment to IFRS 16 entitled *Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases* in May 2020.

8.1 IASB educational document on lease modifications

In April 2020, the IASB issued an educational document relating to the impact of Covid-19 on lease arrangements, which notes that "lessees and lessors must also apply the disclosure requirements of IFRS 16 and other IFRS Standards, such as IAS 1" regarding the disclosure requirements relating to leases – and lease modifications specifically. The document reminds preparers of financial statements that "IFRS 16 requires both lessees and lessors to disclose information that gives a basis for users of financial statements to assess the effect that leases have on their financial position, financial performance and cash flows. The information disclosed will need to be sufficient to enable users of financial statements to understand the impact of Covid-19 related changes in lease payments on the entity's financial position and financial performance."

8.2 Amendment to IFRS 16

In May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases* 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 Covid-19 pandemic.

8.3 Rent concessions that are not accounted for as lease modifications

A lessee that applies the practical expedient discloses that it has applied the practical expedient to all rent concessions that meet the conditions for it or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient.

In addition, a lessee discloses the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient. The Basis for Conclusions to the amendment also notes that disclosure of the cash flow effects of rent concessions would be relevant regardless of whether a lessee applies the practical expedient.

Premier Investments Limited (Premier) disclosed that it has adopted the practical expedient allowed by the amendment and, rather than account for the rent concessions as a contract modification, it has recognised the effect of these concessions in the statement of comprehensive income. The impact of the Covid-19 related rent concessions on its lease liability was also disclosed.

Extract 31: Premier Investments Limited *Australia*

	CONSOLIDATED	
	2020 $'000	2019 $'000
14 LEASE LIABILITIES		
Recognition of lease liability on initial application of AASB 16	410,193	-
Additions	50,315	-
Interest expense	11,080	-
Payments	(150,958)	-
COVID-19 related rent concessions	(15,013)	-
Exchange rate differences	(1,728)	-
TOTAL LEASE LIABILITIES	**303,889**	**-**

COVID-19 RELATED RENT CONCESSIONS

The Group has adopted the practical expedient issued by the International Accounting Standards Board whereby it has not accounted for rent concessions which are a direct consequence of the COVID-19 pandemic as lease modifications. Instead, the Group recognised these concessions in the statement of comprehensive income for the year ended 25 July 2020.

The practical expedient may be applied where the following conditions apply:

- The changed lease payments were substantially the same or less than the payments prior to the rent concession;
- The reductions only affect payments which fall due before 30 June 2021; and
- There has been no substantive change in the terms and conditions of the lease.

Commonly, the nature of the disclosure is qualitative in that the entity had elected to apply the practical expedient resulting from the amendment, as disclosed by Downer EDI Limited below:

Extract 32: Downer EDI Limited *Australia*

(b) Other new accounting standards that were adopted

During the year, the Group has also chosen to adopt AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions*. The main impact of this amendment is that it exempts lessees from the need to account for COVID-19 related rent concessions as a lease modification. As such, lease concessions are treated as a remeasurement to the lease liability, with a corresponding adjustment to the right-of-use assets provided other terms of the lease agreement are materially unchanged.

Note that AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19 Rent Related Concessions* is the Australian equivalent to the IASB's *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*.

8.4 Lease modifications

8.4.1 Lessee consideration

Entities may be modifying lease for a variety of reasons. For example, entities may modify a lease to provide the lessee a rent concession. In other situations, the arrangements may be modified to change the lease term or the scope of the lease (e.g., reductions in floor area). IFRS 16 does not provide any specific disclosure requirements relating to lease modifications. However, a lease modification may impact the general disclosures required under both IFRS 16 and IAS 1 as discussed in section 8.1 above. In addition, lessees are required to consider the disclosure requirement in IFRS 16.59 which states that "a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective [of the standard]".

8.4.2 Lessor consideration

As discussed in section 8.1 above, IFRS 16 requires lessors to disclose information that gives a basis for users of financial statements to assess the effect that leases have on their financial position, financial performance and cash flows. Whilst there are no specific disclosure requirements related to lease modifications, lessors will need to disclose information that is sufficient to enable users of financial statements to understand the impact of Covid-19 related changes in lease payments on the entity's financial position and financial performance. This may include whether they have granted any rent concessions to their lessees as a result of the Covid-19 pandemic and their effect on the financial statements.

Vicinity Limited (Vicinity) is a retail property group that has been impacted by Covid-19, in particular, by the Australian government's *Covid-19: Code of Conduct for SME commercial tenancies*. In its revenue and income note, Vicinity disclosed the impact of the Covid-19 pandemic.

Extract 33: Vicinity Limited *Australia*

2. Revenue and income

(a) Accounting policies

Impact of the COVID-19 pandemic

As a result of the impact of the COVID-19 pandemic on retail trade and the introduction of the SME Code, which contains principles for landlords and SME tenants impacted by COVID-19 to negotiate rental waivers and deferrals, the Group expects to provide rental assistance to many of its tenants. This assistance may take the form of rental waivers, payment deferrals or other changes to existing lease payment structures or lease terms.

At 30 June 2020 the majority of these rental assistance negotiations were ongoing. Accordingly, lease rental income for the majority of leases continued to be recognised in accordance with the terms of the lease contracts in place during the year. Once any rental assistance is agreed with a tenant, the Group anticipates these will be treated as a lease modification with the following effects on the financial statements:

- Existing lease receivables waived will be written off through profit and loss, except to the extent of a pre-existing provision for expected credit losses relating to outstanding lease receivables.
- Lease rental income due over the remaining lease term, which will incorporate any future reductions in fixed lease payments, will be recognised on a straight-line basis.
- Payment deferrals granted will continue to be recognised as lease receivables until they are collected.

The assessment of the revised terms of lease contracts to determine whether a lease modification has occurred will be an area of significant judgement in future periods. Further information on the significant estimates and assumptions applied in determining expected credit losses on outstanding lease receivables at 30 June 2020 can be found in Note 10.

8.5 Collectability considerations for lessors

Lessees may face financial difficulties due to government-mandated closure of businesses. This may cause a significant deterioration in collectability of lease payments. In these circumstances, IFRS 9's guidance on credit losses continues to be applicable to recognised lease receivables. As such, a lessor will be required to provide disclosures required by IFRS 7 and, in particular, those concerning ECLs as presented in section 3 above. Lessors should consider whether to disclose any actions they have taken in negotiating rent holidays or reduced rents that will not necessarily be considered impaired.

In its 2020 half year financial statements, Nieuwe Steen Investments (NSI) N.V. noted that it was working with individual customers to implement arrangements with respect to payments as a result of Covid-19:

Extract 34: NSI N.V. *The Netherlands*

Rental income and debtors

NSI is closely monitoring the payment behaviour of its tenants. Up to 30 June 2020, most part of the rents have been received, though individual arrangements have been made with several tenants. In some specific cases NSI decided to take additional provisions for doubtful debts.
Also measures have been taken with regard to the health and safety of the company's staff and the tenants in the properties; additional investments have been made for this purpose.

Vicinity included a narrative disclosure of the impact Covid-19 had on its tenants, the impact of government measures and cautioned that the environment is rapidly changing and uncertain:

Extract 35: Vicinity Limited *Australia*

10. Trade receivables and other assets

Impact of the COVID-19 pandemic

The COVID-19 pandemic has unfavourably impacted consumer spending, shopping habits and physical retail sales of the Group's tenants. This has been in large part driven by a decline in consumer confidence, due to the uncertain economic and health impacts of the pandemic, and preventative measures implemented by State and Federal Governments, such as 'stay at home orders', mandatory store closures and social distancing and travel restrictions. These factors have meant that at 30 June 2020, many tenants have not paid amounts due under lease contracts to the Group. This has contributed to a significant increase in trade receivables as compared to previous periods.

Additionally, the Federal Government has introduced the SME Code, which contains principles for landlords and certain SME tenants affected by COVID-19 to negotiate rental waivers and deferrals. Application of the SME Code considers whether an eligible tenant has suffered financial hardship due to the COVID-19 pandemic, including their inability to generate sufficient revenue as a direct result of the COVID-19 pandemic that causes the tenant to be unable to meet their financial and/or contractual commitments. Accordingly, the Group is in the process of negotiating rental assistance and/or changes to lease terms with a significant number of SME and affected non-SME tenants across the portfolio. The Group expects that these negotiations will result in a proportion of trade receivables recognised at 30 June 2020 being waived, although final outcomes are uncertain.

The rapidly changing and uncertain trading and economic environment and the uncertain outcome of rental assistance negotiations with tenants have all contributed to significant estimation uncertainty in determining the allowance for expected credit losses at 30 June 2020.

How we see it

As well as providing specific disclosures required by the amendment to IFRS 16, entities should consider to what extent additional disclosures are necessary to meet the disclosure objectives of IFRS 16 to provide adequate disclosure that gives a basis for financial statement users to assess the effect that leases have on the financial position, financial performance and cash flows of the entity.

In addition, entities need to consider the presentation and disclosure requirements in other standards, such as those in IAS 1, IFRS 7 and IFRS 9 when accounting for rent concessions.

The reimbursement is recognised if, and only if, it is virtually certain that it will be received.

9. Contingent assets

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 if, and only if, 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.

Northam Platinum Limited has submitted a first claim under the Covid-19 Temporary Employee Relief Scheme to the value of R67.8 million, for which part payment has been received subsequent to year end. On that basis, the entity concluded that it was virtually certain that reimbursement would be received and recognised a contingent asset.

Extract 36: Northam Platinum Limited *South Africa*

34. Contingent asset – COVID-19 Temporary Employee Relief Scheme (C-19 TERS)

Due to the COVID-19 pandemic affecting business, the government has introduced the COVID-19 Temporary Employee Relief Scheme (C-19 TERS) available to all businesses affected by the lockdown.

Northam Platinum Limited has submitted a first C-19 TERS claim to the value of R67.8 million, for which part payment has been received subsequent to year end. Once the first claim has been finalised, the second and third claim will be submitted.

How we see it

Determining whether or not it is virtually certain that an entity is entitled to a reimbursement requires a careful assessment of the facts and circumstances. Once it is established that it is virtually certain that this is the case, any uncertainty as to the amount receivable should be reflected in the measurement of the claim.

10. Onerous contract provisions

10.1 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.

10.2 Disclosure

If an entity has a contract that is onerous, IAS 37 requires the entity to disclose the nature of the obligation and the expected timing of any resulting outflows of economic benefits.

IAS 37 requires entities to disclose the nature of the obligation and the expected timing of any resulting outflows of economic benefits. Significant judgement may be required about the amount or timing of those outflows given the impact of Covid-19 and the uncertainties involved. Therefore, where necessary to provide adequate information, entities should disclose the major assumptions made concerning future events in addition to an indication of the uncertainties.

BT Group plc recognised a contract loss provision in respect of revenue contracts that are expected to become loss-making as a result of the Covid-19 impacts. The nature of the provision and the expected timing of the outflows were disclosed as required by IAS 37. It also disclosed that it remains uncertain as to whether potential future changes to key assumptions made when estimating their future losses could have a significant impact.

Extract 37: BT Group plc *United Kingdom*

19. Provisions

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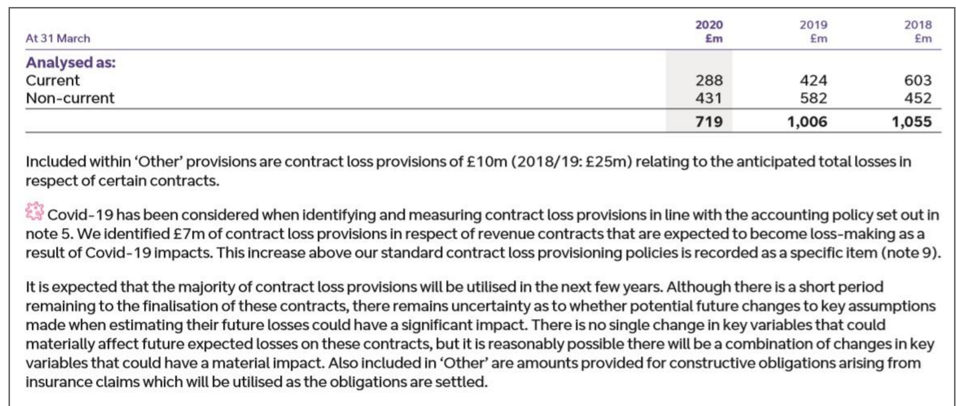
	Restructuring £m	Property £m	Network ARO £m	Network share £m	Regulatory £m	Litigation £m	Other £m	Total £m
At 31 March 2018	12	294	71	33	320	64	261	1,055
Additions	–	84	102	2	58	3	66	315
Unwind of discount	–	11	2	1	–	–	–	14
Utilised or released	–	(71)	(13)	(9)	(196)	(9)	(109)	(407)
Transfers	(12)	21	–	–	–	27	(7)	29
Exchange differences	–	–	–	–	–	(1)	1	–
At 31 March 2019	**–**	**339**	**162**	**27**	**182**	**84**	**212**	**1,006**
IFRS 16 adjustment[a]	–	(183)	(14)	(12)	–	–	–	(209)
At 1 April 2019		**156**	**148**	**15**	**182**	**84**	**212**	**797**
Additions	–	18	52	88	26	7	70	261
Unwind of discount	–	1	1	–	–	–	–	2
Utilised or released	–	(31)	(22)	(91)	(129)	(14)	(77)	(364)
Transfers[b]	–	–	–	–	–	11	11	22
Exchange differences	–	–	–	–	–	–	1	1
31 March 2020	**–**	**144**	**179**	**12**	**79**	**88**	**217**	**719**

[a] On transition to IFRS 16 on 1 April 2019, all onerous lease provisions were either reclassified to the corresponding right-of-use assets as a proxy for impairment, or were otherwise released to equity as a transition adjustment. See note 1.
[b] Transfers include £5m on provisions associated with held-for-sale assets during the period. See note 23.



At 31 March	2020 £m	2019 £m	2018 £m
Analysed as:			
Current	288	424	603
Non-current	431	582	452
	719	**1,006**	**1,055**

Included within 'Other' provisions are contract loss provisions of £10m (2018/19: £25m) relating to the anticipated total losses in respect of certain contracts.

Covid-19 has been considered when identifying and measuring contract loss provisions in line with the accounting policy set out in note 5. We identified £7m of contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts. This increase above our standard contract loss provisioning policies is recorded as a specific item (note 9).

It is expected that the majority of contract loss provisions will be utilised in the next few years. Although there is a short period remaining to the finalisation of these contracts, there remains uncertainty as to whether potential future changes to key assumptions made when estimating their future losses could have a significant impact. There is no single change in key variables that could materially affect future expected losses on these contracts, but it is reasonably possible there will be a combination of changes in key variables that could have a material impact. Also included in 'Other' are amounts provided for constructive obligations arising from insurance claims which will be utilised as the obligations are settled.

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. Disclosure of the key assumptions and judgements is important to inform users as to how onerous contracts were determined.

11. Fair value measurement

The Covid-19 pandemic and the ensuing economic and market disruptions vary across countries, markets and industries, and add uncertainty in fair value measurements. This uncertainty is likely to persist, as some jurisdictions that had eased their restrictions and opened up their economies have seen a second wave of Covid-19 which has led to the easing of restrictions being slowed down or, in some jurisdictions, a return to previously seen restrictions.

When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of possible estimates of the fair value, the entity is required to apply judgement to determine the point within that range that is most representative of the fair value in the circumstances.

It is important in this environment that entities provide transparency about the techniques, key assumptions and inputs used in determining fair value.

It is important in this environment that entities provide transparency about the techniques, key assumptions and inputs used in determining fair value, including the sensitivities by providing disclosures required by IFRS 13 *Fair Value Measurement*. Transparency is an integral part of fair value measurement and is key to enhancing the usefulness of financial reporting in this unprecedented time.

Seven West Media Limited (Seven West) provided a narration on the impact of Covid-19 on other investments in its 2020 annual financial statements. Seven West included details of the additional criteria it utilised and how these were considered in light of Covid-19.

Extract 38: Seven West Media Limited *Australia*

Impact of COVID-19 on assessment of fair value of Other (unlisted) investments

The fair value of other financial assets is measured through a Level 3 (significant unobservable inputs) approach under AASB 9. This methodology included using:

- The issue prices in the most recent round of equity raising conducted by each company assuming this was within the last 12 months; and
- Comparison of issue price movements to listed peers over the same period.

In the second half, the COVID-19 related market conditions, government imposed lockdowns and uncertainty on the impact to company earnings lead management to expand the inputs and analysis to support the current fair value methodology. In the absence of recent pricing activity additional criteria included:

- review of performance of investments against budgets in the period before COVID-19 and following onset of COVID-19 related lockdowns and restrictions;
- cost reduction and cash flow measures put in place by management to limit COVID-19 impact; and
- trajectory of the businesses through the recovery period following COVID-19 lockdown period and impact on long-term revenue generating potential.

The revised procedures and ongoing COVID-19 impact has not led to a change in the fair value of other (unlisted) financial assets in the second half of FY20.

Many entities will have engaged professional valuers given the uncertainty around valuations at this time. When this is the case, entities should disclose this fact in order to support its valuations. Stockland Corporation Limited (Stockland) disclosed that it has engaged external valuation experts to value all its commercial property assets whilst noting the additional measures valuers used to assess the impact of Covid-19.

Extract 39: Stockland Corporation Limited *Australia*

COVID-19 has created a level of uncertainty in investment property markets as at 30 June 2020. As a result, the Directors engaged external valuation experts to value 100% of Stockland's Commercial Property assets (excluding sundry properties) at that date, in addition to the usual internal and external processes undertaken to ensure that assets are carried at fair value. Across the portfolio, valuers adopted a range of adjustments to reflect the short-term impact of the current situation. These adjustments, which were made based on property-specific factors and considered each property's tenancy mix, included increases in vacancy periods, increases in operating costs for common area cleaning, reductions in revenues for lease abatements, reductions in renewal assumptions on expiry, and reductions in rental growth rates. Generally, the external experts applied these adjustments over a forward-looking period of six months to two years, with an assumed return to long-term averages after that point. The greatest negative valuation impact at 30 June 2020 is seen in Retail, with Workplace and Logistics less impacted.

Stockland further presented a sensitivity analysis highlighting the impact of changes in the key drivers presented in the valuation. Given the high level of

uncertainty in the current environment, a sensitivity analysis is useful to provide investors with an assessment of the movements in inputs may have on valuations.

Extract 40: Stockland Corporation Limited *Australia*

To illustrate the exposure of the carrying value of Commercial Property at 30 June 2020 to further fair value movements as a result of changes in the economic environment, a sensitivity analysis of fair value has been prepared over the key drivers most affected by the current uncertainty. Commercial Property valuations remain subject to market-based assumptions on discount rates and capitalisation rates. Given the reduced volume of transactions during COVID-19, the volatility in markets and the lack of certainty around economic recovery, it is possible that there will be movements in these key inputs after 30 June 2020. Further, the future operating income of each asset will be affected by the speed of economic recovery and changes in how businesses and individuals interact with our Commercial Property assets. While it is unlikely that these reported drivers would move in isolation, these sensitivities have been performed independently to illustrate the impact each individual driver has on the reported fair value and they do not represent management's estimate at 30 June 2020.

Stockland	Capitalisation rate		Discount rate		Net operating income	
$M	0.25% Decrease	0.25% Increase	0.25% Decrease	0.25% Increase	5% Decrease	5% Increase
Fair value gain/(loss) on						
• Retail Town Centres	255	(235)	104	(105)	(303)	303
• Logistics	137	(124)	53	(52)	(147)	147
• Workplace	39	(37)	17	(17)	(47)	47
Commercial Property	431	(396)	174	(174)	(497)	497

How we see it

We believe that it is key to provide sufficient disclosures to allow users to make an assessment of the process undertaken and the impact of variations of the inputs from those used. Disclosures should include valuation techniques used, details of the assumptions applied and sensitivity analyses.

12. Revenue recognition

The Covid-19 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 contains more information about each of the following topics.

12.1 Variable consideration and rebates

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 Covid-19 include expectations about returns of goods, contract volumes and whether an entity will meet contractual conditions for performance bonuses or penalties.

Variable consideration estimates that may have changed due to Covid-19 include expectations about returns of goods, contract volumes and whether an entity will meet contractual conditions for performance bonuses or penalties.

12.1.1 Variable consideration constraint: revenue reversal

Corporate Travel Management Limited had recognised volume-based incentive revenue at amounts that were deemed highly probable to be received. However, due to the reduction in volumes resulting from Covid-19 associated travel restrictions in the second half of its financial year, it revised the estimates in relation to the achievement of volume-based performance criteria. This led to a reversal in volume-based incentive revenue in the second half of the year.

Extract 41: Corporate Travel Management Limited *Australia*

Note 4. Revenue

(a) Disaggregation of revenue from contracts with customers

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During the year, volume based incentive revenue had been recognised in line with the Group's policy at amounts that were deemed highly probable to be received. Due to the reduction in volumes resulting from COVID-19 associated travel restrictions in the second half of FY20, estimates in relation to the achievement of volume based performance criteria were revised. This led to a reversal in volume based incentive revenue in the second half of FY20 of $8.4m.

12.1.2 Rebates

carsales.com Ltd provided a dealer rebate package in response to Covid-19, treated as a reduction of revenue, the details of which were disclosed in its financial statements.

Extract 42: carsales.com Ltd *Australia*

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major segments:

2020	Online Advertising Services $'000	Data, Research and Services $'000	Latin America $'000	Asia $'000	Total $'000
Dealer	146,407				
Private	77,822				
Media	48,970				
Total revenue from external customers	**273,199**	**39,258**	**7,616**	**75,512**	**395,585**
Revenue is recognised:					
At a point in time	157,650	9,330	225	24,431	191,636
Over time	115,549	29,928	7,391	51,081	203,949

As part of a Dealer Support Package offered to dealer customers in response to COVID-19, carsales provided a rebate for all fixed and variable fees for dealer customers invoiced in April, provided a 50% rebate on invoices in May and provided a 100% rebate on invoices relating to new car services in June. carsales also extended payment terms during March to May by an additional 30 days and provided access for customers to our counselling service at no charge. The total support provided to dealers was $27.5 million. Revenue above is net of these rebates.

12.2 Disclosure of Covid-19 effects

12.2.1 Reporting pre-Covid-19 and Covid-19 periods

Beach Energy Limited (Beach Energy) reported that despite lower gas demand and Brent oil prices falling to unprecedented lows in March 2020, its response to Covid-19 ensured minimal impact to production and sales volumes through the remainder of its financial year. However, the company disclosed revenue information separately for the first eight months (up to February 2020) and the last four months (up to June 2020) of the 2020 financial year. While it is not required under IFRS 15, this type of additional disclosure may provide helpful insights into the impact of Covid-19.

Extract 43: Beach Energy Limited *Australia*

COVID-19 financial impacts

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Despite lower gas demand and Brent oil prices falling to unprecedented lows in March 2020, the Group's response to COVID-19 ensured minimal impact to production and sales volumes through the remainder of FY20. Revenues recorded through to 30 June 2020 were impacted by lower oil prices, which also flowed through to prices for gas liquids. The market prices of both oil and gas liquids have since come off these lows.

The table below shows Group's sales volumes, sales revenue and average realised prices before (July 2019 – February 2020) and after (March – June 2020) the COVID-19 impact. Note that oil revenue and realised prices for the period March 2020 – June 2020 includes the impact of the fall in oil prices on the revaluation of provisionally priced sales.

Sales volumes by product

		FY20 Jul – Feb	FY20 Mar – Jun	FY20 Full year
Oil (kbbl)	Own Product	5,452	3,127	8,579
	Third Party	686	387	1,073
	Total Oil	6,138	3,514	9,652
Sales Gas and Ethane (PJ)	Own Product	54.8	27.4	82.2
	Third Party	0.3	0.4	0.7
	Total Gas	55.1	27.8	82.9
LPG (kt)	Own Product	127	84	211
	Third Party	1	2	3
	Total LPG	128	86	214
Condensate (kbbl)	Own Product	1,352	720	2,066
	Third Party	2	1	9
	Total Condensate	1,354	721	2,075
Total (kboe)		**17,959**	**9,702**	**27,661**
Total – Own Product (kboe)		17,216	9,223	26,444
Total – Third Party (kboe)		743	469	1,217

Revenue ($ million)

	FY20 Jul – Feb	FY20 Mar – Jun	FY20 Full year
Oil	**640**	**141**	**781**
Sales Gas and Ethane	397	208	605
LPG	76	43	119
Condensate	116	29	145
Total Sales Gas and Gas Liquids	**589**	**280**	**869**
Total oil and gas	**1,229**	**421**	**1,650**
Total – Own Product	1,150	407	1,557
Total – Third Party	79	14	93

Average realised price

	FY20 Jul – Feb	FY20 Mar – Jun	FY20 Full year
All products ($/boe)	**68.4**	**43.5**	**59.7**
Oil ($/bbl)	104.2	40.3	80.9
Sales Gas and Ethane ($/GJ)	7.2	7.5	7.3
LPG ($/t)	591	506	557
Condensate ($/bbl)	85.9	40.0	70.0

Sales Gas and ethane sales volumes represented greater than 50% of the Group's total oil and gas sales volumes for FY20 with sales gas primarily being sold into term contracts with fixed and/or CPI linked prices or oil-linked prices with downside protection when oil prices are low. The Group also has minimal spot gas price exposure with more than 97% of East Coast gas sales expected to be sold under term contracts in FY21 and FY22. In contrast, the Group's sales of crude oil, liquefied natural gas, ethane, condensate, and LPG are based on market prices which are subject to fluctuation.

How we see it

The aim of disaggregating periods is to indicate to users the months that were mostly affected by the coronavirus outbreak. It also aims to provide additional information to allow users of financial statements to compare IFRS-based historical information. If disaggregation of periods is disclosed, the premise is that the entity has access to reliable information on such a disaggregated level, without having to make subjective assumptions that would make the disclosure unreliable and potentially misleading.

12.2.2 Comparing weekly sales 2020 to 2019

BID Corporation Limited (BID) reported that demand for food products substantially diminished at the end of March 2020/early April 2020 for many discretionary spend sectors. In its narrative description of revenue developments, BID included quantitative information by comparing sales for a number of selected weeks with the same weeks a year earlier.

Extract 44: BID Corporation Limited *South Africa*

3.2. The group's assessment of the Coronavirus pandemic (COVID-19) on the groups' consolidated annual financial statements

Based on the magnitude of COVID-19 and its potential impact on the consolidated annual financial statements, the group has conducted a review of all possible financial effects that COVID-19 could have on the measurement, presentation and disclosure provided in the group consolidated annual financial statements. The future is uncertain, however Bidcorp's, resilient business model, its diverse geographical spread of operations and customers, its entrepreneurial culture and strong management teams have enabled the group to navigate the current COVID-19 crisis and its likely future impacts.

The group has considered the potential impact of COVID-19 on the group by taking a variety of risk elements into account which included considering macro-economic factors, contractual obligations and supply chain impacts. In addition, management performed a scenario analysis on the business prospects going forward and stress tested forecasts considering its "business unusual" impacts.

Key COVID-19 areas are considered in the table below:

COVID-19 consideration	Assessment of COVID-19 consideration	Potential impact	Note reference
…			
Revenue	Demand for food products substantially diminished at the end of March 2020/early April 2020 for many discretionary spend sectors, particularly across hotels, restaurants, pubs, leisure and travel related segments. Our businesses actively sought solutions for each market and attempting to replace a small portion of this lost revenue in new channels, such as home delivery and supply to other retail related channels. Non-discretionary activities to institutional customers continued, including serving customers such as hospitals, aged care, prisons, the military and government departments in a number of our businesses. Group sales for the week ended April 5 2020 reached a low of 37% versus the comparative week in 2019 but had recovered to 65% of the comparative revenue for the week ended May 31. By June 30, revenue had reached 71% against the comparative week in 2019 and has shown consistent improvements to reach levels for the week ended August 2 2020 of 89% compared to the same week in the prior year. All businesses have continued operating in each geography; however each country is at a different stage of the COVID-19 crisis. There were no significant contract modifications that took place and both new and existing contracts were assessed to be still enforceable at the reporting date. At June 30 2020, the group's assessment is that activity levels will be around levels of 80% – 90% of pre-COVID levels in the next 12 months .	**Medium**	**4.1**

13. Cost of sales and inventories

IAS 2 *Inventories* 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).

13.1 Incremental costs of production and impact on cost of sales

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 to 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.

Estimates of NRV may be subject to more estimation uncertainty than in the past, and determining the appropriate assumptions may require significant judgement.

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'. As a result of Covid-19, the expected cost to complete inventory may have changed and the selling price may be reduced due to limited demand, amongst other reasons.

In light of the continued pandemic, 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. Some entities may have to determine whether to write down their inventories to NRV if their costs to complete have gone up as a result of the Covid-19 measures.

Barratt Developments plc (Barratt) specifically noted that it has made significant estimates regarding margin recognition and has exercised judgement in evaluating the impact of Covid-19 on the nature and carrying value of inventories. In particular, Barratt disclosed and quantified the incremental costs due to the adoption of Covid-19 safety practices and other expenses that would ordinarily be capitalised as work in progress.

Extract 45: Barratt Developments plc — *United Kingdom*

1.1 Introduction

These Financial Statements for the Group and Parent Company have been prepared in accordance with IFRS as issued by the IASB, IFRIC interpretations and SIC interpretations as adopted and endorsed by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements therefore comply with Article 4 of the EU International Accounting Standards Regulation. The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of secured loans and share-based payments.

Group accounting policies

The significant Group accounting policies are included within the relevant notes to the Financial Statements on pages 173 to 233.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may ultimately differ from those estimates. The Directors have made no individual critical accounting judgements that have a significant impact upon the Financial Statements, apart from those involving estimations.

The most significant estimates made by the Directors in these Financial Statements are:

- Margin recognition – see note 2.3
- Costs associated with legacy properties – see note 3.6
- Impairment of goodwill and indefinite life brands – see note 4.2.3

The Group has exercised judgement in evaluating the impact of COVID-19 on the Financial Statements. In addition to the key sources of estimation uncertainty, the areas where COVID-19 has been considered are:

- Going concern – see note 1.3
- Nature and carrying value of inventories – see note 3.1

…

2.3 Profit from operations

Profit from operations includes all of the revenue and costs derived from the Group's operating businesses. Profit from operations excludes finance costs, finance income, the Group's share of profits or losses from JVs and associates and tax.

Margin recognition

In order to determine the profit that the Group is able to recognise on its developments in a specific period, the Group allocates site-wide development costs between homes built in the current year and in future years. It also has to estimate costs to complete on such developments and make estimates relating to future sales price margins on those developments and homes. In making these assessments there is a degree of inherent uncertainty.

The Group's site valuation process determines the forecast profit margin for each site. The valuation process acts as a method of allocating land costs and construction work in progress costs of a development to each individual plot and drives the recognition of costs in the Income Statement as each plot is sold. Any changes in the forecast profit margin of a site from changes in sales prices or costs to complete is recognised across all homes sold in both the current period and future periods. This ensures that the forecast site margin achieved on each individual home is equal across the development.

The Group has reassessed its estimates on a site-by-site basis to incorporate the expected extension of site duration caused by COVID-19 and the adoption of COVID-19 safe working practices and protocols. On average, the Group estimates that site durations will increase by around six months, resulting in an additional allocation of £29.1m of site-wide development costs to homes sold in the current year.

Management have performed a sensitivity analysis to assess the impact of a change in estimated costs for developments on which sales were recognised in the year. A 1% increase in estimated costs recognised in the year, which is considered to be reasonably possible, would impact cost of sales and work in progress and would reduce the Group's gross profit by £22.9m, a reduction in gross margin of 70 bps.

…

2.3.1 Profit from operations is stated after charging/(crediting):

	Notes	**2020 £m**	2019 £m
Cost of inventories recognised as an expense in cost of sales		**2,511.9**	3,502.7
Of which relate to incremental costs of extensions in site durations due to the adoption of COVID-19 safety practices		*29.1*	–
Employee costs (including Directors)[2]	6.1	**374.7**	427.1
Of which relate to non-productive site employees expensed during the COVID-19 closedown period that would ordinarily be capitalised as work in progress		*25.4*	–
Other non-productive site and safety costs expensed during the COVID-19 closedown period that would ordinarily be capitalised as work in progress		**19.8**	–
Government grants	2.3.3	**(26.0)**	–
Depreciation of property, plant and equipment	4.5	**5.5**	4.3
Depreciation of right-of-use assets[1]	3.5	**13.6**	–
Lease income	3.5	**(1.2)**	(1.2)
Operating lease charges – hire of plant, machinery and vehicles[1]		**–**	35.5
Operating lease charges – other[1]		**–**	14.5

[1] The Group has applied IFRS 16 using the modified retrospective approach and therefore comparatives have not been restated. Further information on the initial application of this standard can be found in notes 1.4 and 1.5.

[2] The employee costs reported above are before the deduction of government grants receivable in respect of these costs of £26.0m (2019: £nil). Further details are provided in notes 2.3.3 and 6.1.

…

2.3.2 Cost of sales

In response to the COVID-19 pandemic, the Group took the decision to temporarily close its sales centres, construction sites and offices during the year and implemented extensive working practices and protocols to enable a safe return to operations. Included within cost of sales are £45.2m (2019: £nil) of non-productive site overheads and safety costs incurred during the controlled closure and restart of our sites that would ordinarily be capitalised as work in progress including £25.4m of employee costs. Additional site-wide development costs arising from extensions in site durations of £29.1m (2019: £nil) have been allocated to homes sold in the current year in line with the Group's margin recognition policy, more detail of which is included note 2.3.

Cost of sales is presented net of £22.8m in Government grant income received in respect of the CJRS (2019: £nil).

…

Nature and carrying value of inventories

The Group's principal activities are housebuilding and commercial development. The majority of the development activity is not contracted prior to the development commencing. Accordingly, the Group has in its Balance Sheet at 30 June 2020 current assets that are not covered by a forward sale. The Group's internal controls are designed to identify any developments where the balance sheet value of land and work in progress is more than the projected lower of cost or net realisable value. During the year the Group has conducted six-monthly reviews of the net realisable value of specific sites identified as at high risk of impairment, based upon a number of criteria including low site profit margins and sites with no forecast completions. Where the estimated net realisable value of a site was less than its current carrying value the Group has impaired the land and work in progress value.

During the year, due to performance variations, changes in assumptions and changes to viability on individual sites, there were gross impairment charges of £18.8m (2019: £5.5m) and gross impairment reversals of £10.6m (2019: £20.3m), resulting in a net impairment of £8.2m (2019: £14.8m reversal) included within profit from operations.

The key estimates in these reviews are those used to estimate the realisable value of a site, which is determined by forecast sales rates, expected sales prices and estimated costs to complete. The effects of COVID-19 have been considered and the expected extension in the time period required to trade through each site has increased site costs to complete.

The Directors consider all inventories to be essentially current in nature, although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of variables such as consumer demand and planning permission delays.

13.2 Abnormal and unproductive production-related costs

If production volumes are lower than the average, entities must not increase the amount of fixed overhead costs allocated to each unit of production.

Some entities may have lower levels of production or 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.

Impala Platinum Holdings Limited disclosed the significant estimates and judgements regarding inventory value, which include costs specifically related to Covid-19 as well as abnormal production costs. In addition, it presented a separate line item 'Covid-19 abnormal production costs' as part of its cost of sales disclosure.

Extract 46: Impala Platinum Holdings Limited *South Africa*

9.1 Significant estimates and judgements

Inventory valuation

During the current year Covid-19 impacted on costs. Additional spend was incurred specifically related to Covid-19 as well as abnormal production costs (note 12.1), which would otherwise form part of normal production costs. Cost of sales was therefore adjusted to distinguish these costs from normal production-related costs and presented separately. Normalised 12-month rolling mining production was calculated assuming that normal production ceased at the end of March 2020 and recommenced in June 2020. Going forward production will be taken into account in determining the average cost of normal production after sufficient ramp up to normal production has been achieved.

...

12. COST OF SALES

	2020 Rm (Reviewed)	2019 Rm (Audited)
Production costs		
On-mine operations	18 581	17 686
Processing operations	6 096	5 410
Refining and selling	1 720	1 621
Depreciation of operating assets	4 521	3 488
Other costs		
Metals purchased	18 465	11 746
Corporate costs	1 139	981
Royalty expense	1 367	646
Change in metal inventories	(7 108)	(182)
Covid-19 abnormal production costs	1 278	–
Chrome operation – cost of sales	84	144
Other	437	251
	46 580	41 791

12.1 Significant estimates and judgements

Cost of sales

Due to the impact of Covid-19, R1 278 million of abnormal and unproductive production-related costs, which would otherwise form part of the calculation of average cost of production for valuing inventory (note 9) were incurred. These costs were excluded from normal production related costs and presented separately in cost of sales. The amount of abnormal production costs separately disclosed was calculated by taking into account the actual shifts worked in relation to target production shifts scheduled for normal budgeted production.

How we see it

If an income measure, such as operating income is presented 'before unabsorbed costs', a separate Alternative Performance Measure (APM) is introduced. This measure may, in principle, help users understand the impact of Covid-19 on the cost of sales. However, entities may need to apply considerable judgement in identifying the unabsorbed Covid-19 related costs, and, thus, may run the risk of excluding recurring costs from their measure of profit and presenting an APM that is quite subjective and lacks comparability.

We believe that 'incremental Covid-19 costs' should be directly attributable to Covid-19 and should be both: a) incremental to costs incurred prior to the pandemic that are not expected to recur once the crisis has subsided and operations return to normal; and b) clearly separable from normal operations.

Northam Platinum Limited similarly disclosed that the lockdown resulted in limited to no production, with fixed overhead costs still being incurred which should not be allocated to the cost of inventories.

Extract 47: Northam Platinum Limited *South Africa*

Impact of COVID-19 on the valuation of inventory

The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overheads allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred.

The lockdown resulted in limited to no production, with fixed overhead costs still being incurred which should not be allocated to the cost of inventories. As a result, management allocated normalised fixed overhead costs to value inventory, based on actual production. Concentrates purchased were valued at the cost of acquisition. The valuation of inventory therefore does not include abnormal fixed overheads as a consequence of low production volumes.

Inventory is further required to be assessed at year end for possible write downs due to net realisable values being lower than the costs allocated to inventory.

Net realisable value tests are performed on a monthly basis and represent the expected selling prices which are based on prevailing market prices, less estimated costs to complete production and to bring the product to sale.

All net realisable value adjustments have been disclosed.

Diageo plc disclosed an exceptional operating charge related to obsolete inventory that had to be destroyed as a direct consequence of Covid-19 and it also disclosed the impact on the provision for obsolescence.

Extract 48: Diageo plc *United Kingdom*

4. Exceptional items

…

	2020 £ million	2019 £ million	2018 £ million
Exceptional operating items			
Brand, goodwill, tangible and other assets impairment (a)	**(1,345)**	–	(128)
Donations (b (i))	**(89)**	–	–
Obsolete inventories (b (ii))	**(30)**	–	–
Substitution drawback (b (iii))	**83**	–	–
Indirect tax in Korea (c)	**24**	(35)	–
Guaranteed minimum pension equalisation (d)	**–**	(21)	–
French tax audit penalty (note 7 (b) (ii))	**–**	(18)	–
	(1,357)	(74)	(128)

…

(ii) In the year ended 30 June 2020, an exceptional charge of £30 million was recognised in respect of obsolete inventories that have been or will be destroyed as a direct consequence of the Covid-19 pandemic. The amount comprises of a £23 million inventory provision and £7 million directly attributable to handling and destruction costs.

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14. Working capital

…

Inventories are disclosed net of provisions for obsolescence, an analysis of which is as follows:

	2020 £ million	2019 £ million	2018 £ million
Balance at beginning of the year	**63**	71	88
Exchange differences	**–**	–	(2)
Income statement charge/(release)[i]	**47**	(3)	–
Utilised	**(12)**	(5)	(15)
	98	63	71

(i) Income statement charge in the year ended 30 June 2020 comprise £23 million exceptional charge due to Covid-19.

How we see it

Entities should carefully consider the challenge of not being able to reflect the full effect of the pandemic when contemplating to introduce measures such as 'Unabsorbed coronavirus costs' and 'Incremental coronavirus costs', as well as the risk of including costs not impacted by the pandemic.

13.3 Assessment of net realisable value

Covid-19 has required some entities to reconsider the way they do business, for example, by changing their supply chains or move sales online. However, other entities, such as Seven Group Holdings Limited, explicitly disclosed the fact that Covid-19 has not had a material impact on the net realisable value of inventory.

Extract 49: Seven Group Holdings Limited *Australia*

10. INVENTORIES

Accounting policy

Inventories are measured at the lower of cost and net realisable value.

Cost is based on the actual costs, with the exception of exchange component inventory and parts inventory for which cost is based on weighted average cost, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Net realisable value is determined on the basis of the Group's normal selling pattern. Expenses for marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENT

Management is required to make judgements regarding writedowns to determine the net realisable value of inventory. These writedowns consider factors such as the age and condition of goods as well as recent market data to assess the estimated future demand for the goods.

To date, COVID-19 has not had a material impact on the Group's assessment of the net realisable value of inventory, with inventory turn increasing since the commencement of the pandemic.

14. Share-based payment

Covid-19 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.

Covid-19 may result in a need for additional disclosures for users of financial statements to understand the effect of share-based payment transactions.

Altium Limited (Altium) provided share-based payments to its employees which are accounted as equity-settled share-based payment transactions. Altium disclosed the nature of a modification to one of the share-based payments plans which vested subject to meeting pre-determined performance conditions tested in each year for a period of five years.

Extract 50: Altium Limited *Australia*

Note 31. Share-based payments

Benefits are provided to employees of the Group in the form of share-based payments, where employees render services in exchange for equity shares. The Remuneration report sets out details relating to Altium share plans on pages 24 to 38.

Performance Rights Plan

Long term incentive plan

The Long term incentive plan is designed to encourage participating employees through both their individual and collective effort and contribution to have an impact on current success whilst creating value for the future.

The plan was introduced in 2019 and has both EPS and revenue as performance conditions. The board has approved a modification to the plan to change the performance conditions to be revenue only for shares vesting in August 2020. Performance metrics for the year ended 30 June 2020 were considered to be a critical milestone for the Group and all focus should be on revenue. The targets for years 2021 onwards remained unchanged.

Upon the performance conditions being satisfied the Performance Rights will vest in 5 years. Those entering the Performance Rights Plan for the first time will receive an award delivered in Performance Rights subject to meeting performance conditions tested in each year for a period of 5 years. The LTI performance criteria was not met for the year ended 30 June 2020 resulting in no vesting of shares in August 2020. Due to the extraordinary situation presented by COVID-19 the Board has resolved to defer the LTI award for this year's tranche for re-testing in future years.

Vesting is applied as follows:

- Year 1 -15%
- Year 2 - 15%
- Year 3 - 20%
- Year 4 - 20%
- Year 5 – 30%

...

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 and whether modification and cancelation of plans have occurred in response to the pandemic. If so, then they need to consider the appropriate disclosure required by IFRS 2 for the modification or cancellation of such arrangements.

Determining whether events should result in adjustments to the financial statements depends on the nature of the subsequent event and the accounting topic.

15. Events after the reporting period

Determining whether events should result in adjustments to the financial statements 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 are required, under the relevant circumstances.

If management concludes that an event is a non-adjusting event, but its impact is material, the entity must disclose the nature of the event and an estimate of its financial effect, unless it is impractical to do so.

Areas that an entity should consider disclosing in its subsequent events note may include:

- The measures taken to minimise the impact of Covid-19 and to continue operations
- That the entity continues to monitor the Covid-19 situation and will take further action as necessary in response to the economic disruption
- Any issuance of debt or equity or refinancing undertaken after the reporting date. Entities should disclose any amendments or waivers of covenants agreed by lenders to accommodate Covid-19 related concerns
- Organisational restructurings to reduce the impact of Covid-19 and whether any disposals of business units have been decided
- The impact of the subsequent restrictions imposed by governments that caused disruption to businesses and economic activity and the expected effects on revenue and operations
- Any decisions made to suspend or alter dividends made after considering the inherent uncertainty surrounding the financial impact of Covid-19
- Whether Covid-19 is likely to continue to cause disruption to economic activity and whether there could be further adverse impacts on revenue

SkyCity Entertainment Group Limited disclosed its funding plan in response to uncertainties relating to Covid-19, such as its equity raising plan and sourcing of additional debt facilities, restructuring and extending the existing bank facility and obtaining covenant waivers. The company also disclosed the impact of restrictions imposed by government on its operations.

Extract 51: SkyCity Entertainment Group Limited *New Zealand*

40 Events Occurring after the Balance Sheet Date

(a) Funding plan

On 17 June 2020, SkyCity announced a funding plan to provide additional financial flexibility in response to COVID-19 (note 1(h)). That plan included a $230 million equity raising and additional debt facilities.

As detailed in note 12, in July 2020 the existing bank facility was restructured and extended, a new revolving credit facility was established and funding covenant waivers obtained.

As detailed in note 29, in July 2020 the second part of the equity raising (the share purchase plan) was completed and a further $50.0 million raised.

(b) COVID-19

On 13 July 2020, SkyCity applied for the extended New Zealand wage subsidy and received $9.5 million.

On 12 August 2020, the New Zealand Government reinstated COVID-19 Alert Level 3 for the Auckland region and the rest of New Zealand moved to Alert Level 2. On 31 August 2020, the Auckland region moved to Alert Level 2, consistent with the rest of New Zealand. From 12 – 30 August 2020, the vast majority of SkyCity Auckland's operations were closed, including all gaming areas. From 12 August 2020, SkyCity Hamilton and SkyCity Queenstown, and SkyCity Auckland from 31 August 2020, have operated in compliance with the New Zealand Government's requirements for social gatherings, contact tracing and hygiene. Following the initial COVID-19 outbreak, SkyCity restructured its operations and funding arrangements to withstand a long recovery period and the latest closure and operating restrictions have not required any further restructuring.

Vicinity Limited disclosed the restrictions imposed by government after the reporting period, as well as updated information regarding the impact of Covid-19 on developments such as rental assistance negotiations. Furthermore, the issuance of new securities after the reporting date was disclosed.

Extract 52: Vicinity Limited *Australia*

24. Events occurring after the reporting date

Completion of Security Purchase Plan (SPP)

The Group announced the SPP on 1 June 2020. This provided retail securityholders the opportunity to acquire up to $30,000 of new Vicinity stapled securities. The SPP offer closed on 6 July 2020 with subscriptions totalling $32.6 million. Subsequently, on 13 July 2020 22.6 million new Vicinity stapled securities were issued at a price of $1.44. These securities began trading alongside existing Vicinity securities on 14 July 2020.

Melbourne Stage 3 and Stage 4 lockdowns

Stage 3 lockdown restrictions were announced by the Victorian Premier for Melbourne and Mitchell Shire on 7 July 2020 (effective from 9 July 2020) and Stage 4 announced on 2 August 2020. Approximately 52% of the Group's retail investment property portfolio (by value) is located within Victoria. These announcements and any future further restrictions will unfavourably impact the Group's rental collections and financial performance in FY21.

Additionally, as disclosed in Note 4(c), the Group considered the impact of an additional Stage 3 type lockdown of up to eight weeks in determining investment property fair values at 30 June 2020. An escalation to Stage 4 restrictions was not envisaged and therefore the announcement on 2 August 2020 would unfavourably impact the 30 June 2020 fair value of investment properties had it been considered at that time.

Rental assistance negotiations

As disclosed in Note 10 to the financial statements due to the impacts of COVID-19 on retail trade, the Group is in the process of negotiating rental assistance and/or changes to lease terms with a significant number of tenants across the portfolio. The Group estimates that rental assistance will be provided for approximately 84% of lease agreements. As at 10 August 2020, the terms of rental assistance had been agreed in-principle with approximately 43% of tenants.

COVID-19 pandemic

The duration and extent of the pandemic and related financial, social and public health impacts of the COVID-19 pandemic are uncertain. Disclosures have been included in Note 2, Note 3, Note 4 and Note 10 to the financial report on the impact that this uncertainty has had on the reported amounts of relevant revenues, expenses, assets and liabilities for the year ended 30 June 2020 and the potential impacts that this uncertainty may have on revenues, expenses, assets and liabilities in future periods.

Other than the matters described above, no matters have arisen since the end of the year which have significantly affected or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial periods.

How we see it

Entities need to ensure that 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 make on the basis of the financial statements.

16. Cash, liquidity and covenant compliance

16.1 Cash and cash equivalents

IFRS 7 requires specific disclosure of how an entity manages its liquidity risk.

IFRS 7 defines liquidity risk as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The standard requires specific disclosure of how an entity manages its liquidity risk.

Auckland International Airport Limited disclosed that it has raised additional capital as a result of which it has seen a significant increase to cash and cash equivalents.

Extract 53: Auckland International Airport Limited *New Zealand*

13. Cash and cash equivalents

	2020 $M	2019 $M
Short-term deposits	765.1	35.2
Cash and bank balances	0.2	2.1
	765.3	37.3

Cash and bank balances earn interest at daily bank deposit rates. During the year, surplus funds were deposited on the overnight money market and term deposit at a rate of 0.25 to 1.65% (2019: at a rate of 1.50 to 2.35%).

As a result of the capital raise undertaken in response to the COVID-19 outbreak, the company has seen a significant increase to cash and cash equivalents. At 30 June 2020, Auckland Airport held total cash and cash equivalents of $765.3 million. The short-term deposits at 30 June 2020 range from $80.0 million to $330.0 million and were spread across five financial institutions to minimise credit risk, with those being ANZ Bank, ASB Bank, Bank of New Zealand, Bank of Tokyo Mitsubishi and Westpac New Zealand. These financial institutions had a credit rating of 'A' or above from Standard & Poor's. The level of deposits at each financial institution recognises a balance between returns and credit risk (2019: $3.7 million to $19.0 million across three financial institutions).

16.2 Covenant compliance

Corporate Travel Management Limited disclosed that Covid-19 had a negative impact on its financial position and that it had agreed a covenant waiver with its lenders for the upcoming testing periods. It further disclosed the uncertainties around its ability to meet the covenant requirements after the period covered by the waiver.

Extract 54: Corporate Travel Management Limited *Australia*

Consideration of liquidity risk

The unprecedented impact of COVID-19 has had a negative impact on the Group's operational and financial position. In light of this, the Group agreed a covenant waiver with its lenders for the testing periods at 30 June 2020 and 31 December 2020. Covenant testing for the period ending 30 June 2021 will be based on 2H21 performance.

To the extent the Group's operational or financial position deteriorates further, there is no guarantee that it will be able to obtain further relief from covenant testing in the future. In such circumstances, the banks may require loans to be repaid immediately, which may have a material adverse effect on the Group's future financial performance.

However, CTM's modelling indicates that, notwithstanding the present uncertainties, its strong balance sheet, including significant cash holdings and no debt, coupled with the actions it has taken to date and the continued activity of its clients ensures that it has the capacity to continue through the challenges caused by the impacts of the COVID-19 pandemic.

Refer to Note 18(c) for further information in relation to Liquidity risk.

ClearView Wealth Limited disclosed that it sought to obtain a waiver such that the covenants are calculated on an annual basis for its 2020 financial year.

Extract 55: ClearView Wealth Limited *Australia*

6.4 Borrowings continued

As at the reporting date, the Company had a $60 million facility agreement with the National Australia Bank that has been fully drawn down as at the balance date. The facility is repayable on 1 April 2024. The facility was renewed for a further three year period in April 2020.

As part of the renewal of the facility, the margins paid on the facility were renegotiated. From the date of renewal, interest on the loan accrues at BBSY plus a margin of 0.95% per annum (FY19: 0.80%), and is payable monthly. Furthermore, a line fee of 0.80% per annum (FY19: 0.65%) is payable on the facility on a quarterly basis.

The covenants of the facility agreement state that the Group's debt must not exceed 35% of the Group's total debt and equity and the Group's EBITDA (excluding policyholder net profit and removing any effects from the adoption of AASB 16) must not be less than 3x interest expense. In the recent renewal, a Review Event was also added based on the capital base of the life company, ClearView Life. This has been set as a minimum PCA ratio of 1.5x (excluding Pillar 2 and reinsurance concentration risk charges for a period of two years from the date of the facility renewal). The covenants are calculated on six monthly basis under the terms of the facility agreement. As part of the COVID-19 response, a waiver was sought such that these covenants are calculated on an annual basis for FY20. Notwithstanding this waiver, based on the results to 30 June 2020, ClearView has been operating within its covenants under the terms of the Facility Agreement (as calculated on a six monthly basis). The Group has therefore not identified any breaches at 30 June 2020 nor at the time at which these financial statements were authorised for issue.

Virtus Health Limited (Virtus Health) disclosed that it was in compliance with its debt covenants and added that its lender group allows for 'appropriate normalisations' for Covid-19 impacts in covenant calculations up until 31 December 2020. Virtus Health further disclosed that its liquidity and funding needs can be accommodated through its syndicated facility arrangements.

Extract 56: Virtus Health Limited *Australia*

Note 37. Events after the reporting period

Subsequent to year end new cases of COVID-19 rose rapidly in Victoria to new record levels. The subsequent restrictions imposed by the Victorian government have caused disruption to business and economic activity and are likely to negatively impact the consolidated entity's trading revenue and operations. At the same time there has been a rise in the number of clusters in NSW.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in the 30 June 2020 financial statements and are discussed in the Operating and Financial Review section of the Directors Report. To the extent that ongoing impacts have been estimated we have considered the uncertainties arising from the COVID-19 pandemic in preparation of our financial statements. However, the expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy are unclear. The financial impact going forward for the consolidated entity will depend on evolving changes in government policy and business and customer reactions.

As at 30 June 2020, the group was in compliance with its debt covenants. This has been further bolstered by the support of its lender group to allow for appropriate normalisations for COVID-19 impacts in covenant calculations extending out to the reporting period to 31 December 2020. Virtus' ongoing trading and cash flow assumptions in the COVID-19 impacted environment, demonstrate that liquidity and funding needs of the business can be accommodated through its syndicated facility arrangements, without the need for additional near-term funding. At 30 June 2020, the consolidated entity had $38million in cash and $92.3million in unused and available debt facilities.

The consolidated entity has managed, and continues to actively manage, the risks arising from COVID-19. This includes a financial response plan that incorporates scenario and contingency planning at all clinics across the globe, stress testing of cash flow forecasts and sensitivity analysis.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

How we see it

Entities may experience cash flow challenges as a result of disruptions caused by Covid-19. Such entities need to take steps to maintain their liquidity, obtain additional financing, amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants. Entities need to ensure that sufficient information is provided to the users of financial statements about cash and cash equivalents, liquidity, and their ability to comply with covenants.

17. Dividends and capital management

IAS 1 requires entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. In response to Covid-19, entities may change their capital management policies, for example, by modifying their dividend policy. In the case where dividends were suspended, entities may disclose the fact with the reason and the future plan.

IAS 1 requires entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital.

Cochlear Limited disclosed its capital management measures to address Covid-19, such as a capital raising, additional facilities, obtaining covenant waivers and its decision not to pay a dividend.

Extract 57: Cochlear Limited *Australia*

6.1 Capital management

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In order to maintain or adjust the capital structure, Cochlear may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

In the year ended 30 June 2020 and in response to the combined effects of COVID-19 and the patent litigation, Cochlear increased its liquidity by taking the following steps:

- a capital raising of AUD 1,075.6 million (net of related costs). The capital raising was to ensure Cochlear remained strongly capitalised during the market uncertainties of COVID-19 and to position Cochlear for the future;
- increase total available debt from AUD 414.5 million in 2019 to AUD 1,003.8 million. Additional facilities were obtained from existing lenders of AUD 225.0 million for working capital and USD 268 million for the patent litigation;
- obtaining covenant waivers from all Cochlear's lenders for the leverage and interest cover ratio covenants testing periods June 2020 and December 2020; and
- determined that no final 2020 dividend will be paid.

Cochlear's priorities for the use of cash from the capital raising and the availability of the new debt facilities is to strengthen the balance sheet to support the business during the impacts of COVID-19 while continuing to invest in core strategic business priorities and research and development, to respond to the patent litigation expense and to reduce existing net debt levels. At the appropriate time, Cochlear will resume the dividend to shareholders.

Auckland International Airport Limited disclosed the cancellation of its interim dividend, decision not to pay a final dividend in response to Covid-19, and the reason for the decision.

Extract 58: Auckland International Airport Limited *New Zealand*

9. Distribution to shareholders

	Dividend payment date	2020 $M	2019 $M
2018 final dividend of 11.00 cps	19 October 2018	-	132.3
2019 interim dividend of 11.00 cps	5 April 2019	-	132.8
2019 final dividend of 11.25 cps	18 October 2019	136.3	-
Total dividends paid		136.3	265.1

Supplementary dividends of $9.7 million (2019: $18.2 million) are not included in the above dividends as the company receives an equivalent tax credit from Inland Revenue.

On 17 March 2020, Auckland Airport announced the cancellation of the dividend payment for the half year to 31 December 2019 after Air New Zealand and other airlines announced widespread flight cancellations and future capacity reductions for international and domestic services in response to COVID-19. Subsequently, as part of the capital restructure undertaken to position Auckland Airport to survive a potentially protracted period of depressed aeronautical activity, Auckland Airport agreed financial covenant waivers with its bank lenders and USPP noteholders and that no dividends will be paid while those waivers are in effect. Hence the Board determined that no dividend will be paid for the year ended 30 June 2020. Further information about the capital restructure is available at notes 3(d) and 18(d)(v).

18. Alternative performance measures and disclosures

Entities should be particularly cautious to ensure that any APMs disclosed in the financial statements are not given more prominence than the equivalent IFRS measures.

Many entities have elected to use Alternative Performance Measures (APMs), also known as non-GAAP measures, to disclose quantitative estimates or qualitative explanations of the impact of Covid-19 on their financial results. 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. Entities should be particularly cautious to ensure that any APMs disclosed in the financial statements are not given more prominence than the equivalent IFRS measures.

Some regulators have also issued specific guidance on the use of Covid-19 adjusted APMs. For instance, the International Organization of Securities Commissions (IOSCO), issued a statement on 29 May 2020, which, amongst 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 Covid-19, the company's sales and/or profits would have increased by XX%) as an APM would not be appropriate'

Our research has indicated that the use of Covid-19 adjusted APMs in the financial statements has been, perhaps, surprisingly limited. A large proportion of entities have elected to use their management commentary, management discussion and analysis or similar reports as the location of APMs. Although taking this approach means that these APMs are not captured by the requirements of IFRSs, entities that adopt this approach will need to be aware of the requirements of local regulators. Entities that take this approach should ensure that the APMs provided do not contradict, but are consistent with, the information presented in their financial statements.

When APMs are presented within the financial statements, the requirements of IAS 1 must be considered.

Qantas Airways Limited disclosed an underlying profit before tax (underlying PBT) in its 2020 financial statements. This disclosure is consistent with that in the prior periods; however, in 2020 there is a higher degree of narration. Much of the narration either directly or indirectly refers to the impacts of Covid-19 as the reason for the significant difference between underlying PBT and the statutory loss.

Extract 59: Qantas Airways Limited *Australia*

(B) UNDERLYING PROFIT BEFORE TAX (UNDERLYING PBT) AND RECONCILIATION TO STATUTORY PROFIT BEFORE TAX (CONTINUED)

The impact of COVID-19 and the Group's Recovery Plan have resulted in items not included in Underlying PBT, including asset impairments (including the A380 fleet), Recovery Plan restructuring costs including redundancies and de-designated hedging due to a significant decrease in flying activity. These are in addition to transformation costs directly incurred to enable the delivery of transformation benefits.

	2020 $M	2019 (restated) $M
RECONCILIATION OF UNDERLYING PBT TO STATUTORY (LOSS)/PROFIT BEFORE TAX		
Underlying PBT	**124**	**1,326**
Items not included in Underlying PBT		
– Transformation costs and discretionary bonus for non-executive employees	(191)	(254)
– Recovery Plan restructuring costs	(642)	-
– (Impairment)/reversal of impairment of assets and related costs	(1,428)	39
– De-designation of fuel and foreign exchange hedges	(571)	-
– Net gain on disposal of assets	-	192
– Unrealised foreign exchange movements from the adoption of AASB 16 and the IFRIC Fair value hedging agenda decision	-	(105)
– Other	-	(6)
Total items not included in Underlying PBT	**(2,832)**	**(134)**
Statutory (Loss)/Profit Before Income Tax Expense	**(2,708)**	**1,192**

In the 2020 financial year, the items outside of Underlying PBT included:

Item Outside of Underlying PBT	Description
Transformation costs and discretionary bonuses for non-executive employees	$191 million including redundancy and related costs of $44 million, fleet restructuring costs of $62 million (primarily related to costs for the introduction of the 789 Dreamliners and retirement of the 747 fleet), other upfront costs of $55 million directly incurred to enable the delivery of transformation benefits and $30 million of discretionary bonuses to non-executive employees which will be paid to non-executive employees after the employees' post-wage freeze collective agreement is voted upon and approved.
Recovery Plan restructuring costs	$642 million including people restructuring costs of $575 million and fleet restructuring costs of $67 million resulting from the announced COVID-19 Recovery Plan. People restructuring costs include redundancy costs and the remeasurement of employee entitlement provisions due to rightsizing and restructuring strategies in the Recovery Plan. Fleet restructuring costs resulted from changes to fleet strategy as a result of the Recovery Plan.
Impairment of assets and related costs	Impairments of assets and related costs includes: - $1,087 million impairment of the Group's A380 fleet, including related spares, inventories and onerous contracts. With the impact of COVID-19 and the closure of international borders, the Group's A380 fleet is expected to be grounded for the foreseeable future - $23 million impairment relating to the early retirement of the Group's 747 fleet - $150 million impairment of property, plant and equipment, intangible assets and other assets not expected to be recovered in the Recovery Plan - $25 million impairment of the Group's investment in Jetstar Pacific - $73 million impairment of Goodwill and indefinite lived intangible assets in Jetstar Asia - $70 million impairment of the Group's investment in Helloworld. Refer to Note 25 for details on impairment of assets and related costs.
De-designation of fuel and foreign exchange hedges	The Group hedges fuel price risk in accordance with the Treasury Risk Management Policy. Hedge accounting is applied when the requirements of AASB 9 *Financial Instruments* are met. Where the forecast fuel purchase transaction is no longer expected to occur, then hedge accounting is discontinued prospectively, and the amount accumulated in equity is reclassified to the Consolidated Income Statement. The significant decrease in flying activity in the last quarter of the 2019/20 financial year and into the 2020/21 financial year has resulted in hedge accounting being discontinued where forecast fuel purchases are no longer expected to occur. De-designation of fuel and foreign exchange hedges of $571 million has been recognised immediately in the Consolidated Income Statement. Refer to Note 27 for further details on de-designation of fuel and foreign exchange hedges.

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 Covid-19 related APMs (e.g., the minimum line item requirements, the use of additional line items when such presentation is relevant to the understanding of an entity's financial position and performance). Depending on the specific facts and circumstances, disaggregating the minimum required line items into additional line items may be acceptable, as long as they aggregate into a single subtotal-line, that would have otherwise been presented had Covid-19 not occurred.

In the current environment, the comparability of Covid-19 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 Covid-19, rather than introducing a new APM or adjusting their APMs.

Appendix: List of companies

Name	Country
Altium Limited	Australia
Auckland International Airport Limited	New Zealand
Barratt Developments plc	United Kingdom
Beach Energy Limited	Australia
BID Corporation Limited	South Africa
BT Group plc	United Kingdom
Burberry Group plc	United Kingdom
carsales.com Ltd	Australia
Challenger Limited	Australia
ClearView Wealth Limited	Australia
Cochlear Limited	Australia
Commonwealth Bank of Australia	Australia
Corporate Travel Management Limited	Australia
Diageo plc	United Kingdom
Dixons Carphone plc	United Kingdom
Domain Holdings Australia Limited	Australia
Downer EDI Limited	Australia
FirstRand Limited	South Africa
Fonterra Co-operative Group Limited	New Zealand
Harmony Gold Mining Company Limited	South Africa
Impala Platinum Holdings Limited	South Africa
Insurance Australia Group Limited	Australia
Major Drilling Group International Inc.	Canada
NIB Holdings Limited	Australia
Northam Platinum Limited	South Africa
NSI N.V.	The Netherlands
Premier Investments Limited	Australia
Qantas Airways Limited	Australia
Seven Group Holdings Limited	Australia
Seven West Media Limited	Australia
SkyCity Entertainment Group Limited	New Zealand
Stockland Corporation Limited	Australia
SunCorp Group Limited	Australia
Verbio Vereinigte BioEnergie AG	Germany
Vicinity Limited	Australia
Virtus Health Limited	Australia
Webjet Limited	Australia

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