

Regulators' Forum

IFRS for Regulators:

Covid-19 Impacts and Responses

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Technical session for STAREP+ Banking, Insurance and Securities Regulators

**Panel 2:
IFRS 'concepts' to consider in current
circumstances**

Selected (other than financial instruments) Covid-19 related IFRS issues

- » A few words on disclosure
- » Going concern
- » Events after the reporting period
- » Non-financial asset impairment
- » Government grants and government assistance

Selected Covid-19 related **ENTITY-SPECIFIC** IFRS disclosure issues

- » The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a **fair presentation**. (IAS 1.15)
- » Material uncertainties related to events or conditions (including those arising after the reporting period) that may cast significant doubt upon the entity's ability to continue as a **going concern**. (IAS 1.25 and IAS 10.16)
- » **Key measurement assumptions** (KMAs) (IAS 1.125-129)
- » **Significant judgements** other than KMAs (IAS 1.122-124)
- » Non-adjusting **events after the reporting period** (IAS 10.17-21)

Regulatory Covid-19 related **ENTITY-SPECIFIC** disclosure issues

For example, ESMA

» ESMA (11/03/2020): “**Financial Reporting** – issuers should provide **transparency** on the **actual and potential impacts of COVID-19**, to the extent possible based on both a **qualitative and quantitative assessment** on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalised or otherwise in their interim financial reporting disclosures;”

Going concern and events after the reporting period

Selected dates from WHO Covid-19 time-line

source: WHO <https://www.who.int/news-room/detail/27-04-2020-who-timeline---covid-19>

- » **31/12/2019:** Wuhan Municipal Health Commission, China, reported a cluster of cases of pneumonia in Wuhan, Hubei Province. A novel coronavirus was eventually identified.
- » **10/01/2020:** WHO issued a comprehensive package of technical guidance online with advice to all countries on how to detect, test and manage potential cases, based on what was known about the virus at the time.
- » **13/01/2020:** confirms first recorded case of COVID-19 outside of China (in Thailand).
- » **14/01/2020:** WHO's technical lead for the response noted in a press briefing there may have been limited human-to-human transmission of the coronavirus (in the 41 confirmed cases), mainly through family members, and that there was a risk of a possible wider outbreak. The lead also said that human-to-human transmission would not be surprising given our experience with SARS, MERS and other respiratory pathogens.
- » **22-23/01/2020:** The WHO convened Emergency Committee could not reach a consensus on whether the outbreak constitutes a public health emergency of international concern.

Going concern and events after the reporting period

Selected dates from WHO Covid-19 time-line

source: WHO <https://www.who.int/news-room/detail/27-04-2020-who-timeline---covid-19>

- » **30/01/2020:** Declares a **Public Health Emergency of International Concern (PHEIC)**. Risk assessment very high for China, and high at the global level.
- » **11/03/2020:** Deeply concerned both by the alarming levels of spread and severity, and by the alarming levels of inaction, WHO made the assessment that COVID-19 can be characterized as a **pandemic**.
- » **13/03/2020:** Europe becomes epicentre of the pandemic.
- » **17/03/2020:** WHO calls for urgent, aggressive actions to combat COVID-19, as cases soar in South-East Asia Region.
- » **16/06/2020:** WHO welcomes the initial clinical trial results from the UK that show dexamethasone, a corticosteroid, can be lifesaving for patients who are critically ill with COVID-19: reduces mortality by ±one-third, and for patients requiring only oxygen by ±one-fifth.

Going concern (background for 30 June interim reporting)

sources: <https://www.bbc.co.uk/news/business-53104730>, <https://www.bbc.co.uk/news/business-53187415> and <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200625c.htm>

- » **21/06/2020:** “The deepening cold war between the US and China will be a bigger worry for the world than coronavirus, according to influential economist Jeffrey Sachs”
- » **25/06/2020:** “The current shock is already more severe than anything the Fed had anticipated in its stress tests, despite past criticism that the central bank was being unrealistically gloomy”. Lael Brainard, Federal Reserve Governor
 - » record 14.7% unemployment rate the US reported in April 2020.
 - » Fed Scenario: pandemic severely impacted the US economy, aggregate losses for the 33 biggest US banks could reach \$700bn if unemployment rates were to climb to 19.5%

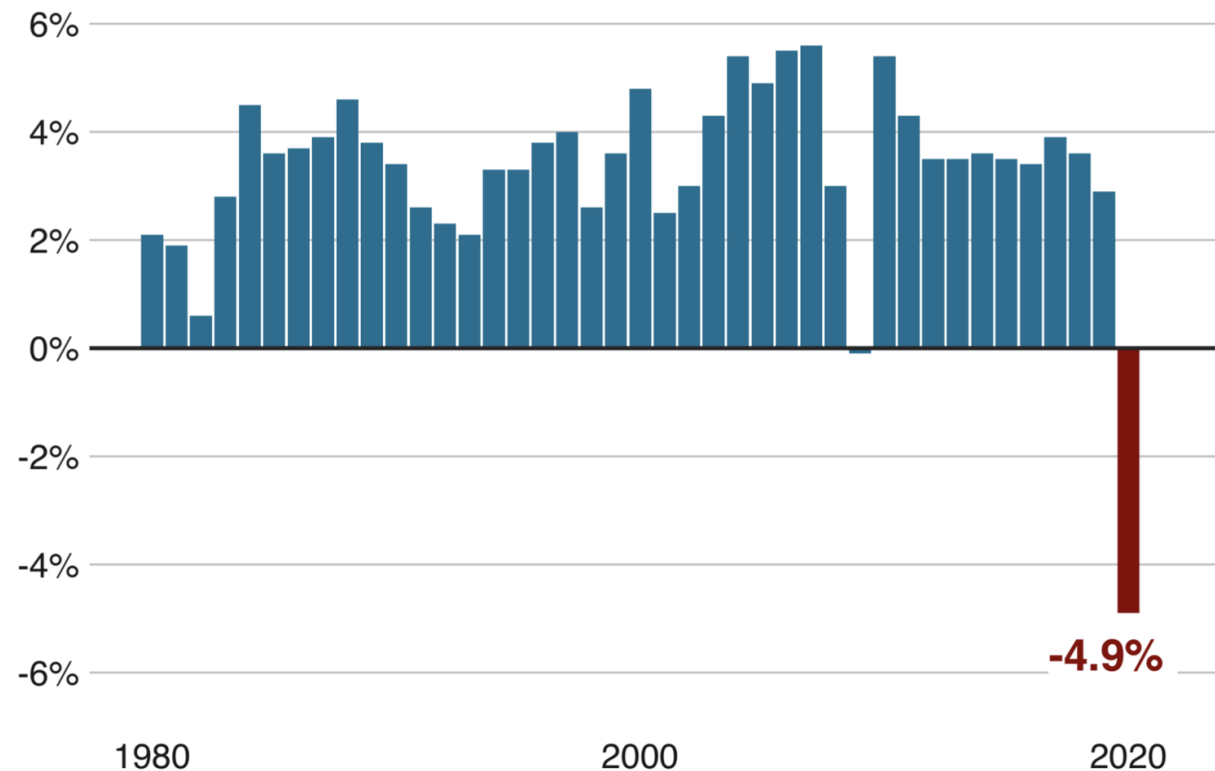
Going concern (background for 30 June interim reporting)

IMF GDP forecasts for 2020

source: <https://www.bbc.co.uk/news/business-53164304>

Global recession deepens

IMF annual GDP since 1980



24/06/2020 IMF updates forecast economic **contraction for 2020:**

- » World 4.9%
- » UK 10%+ (deeper for Italy, France and Spain).

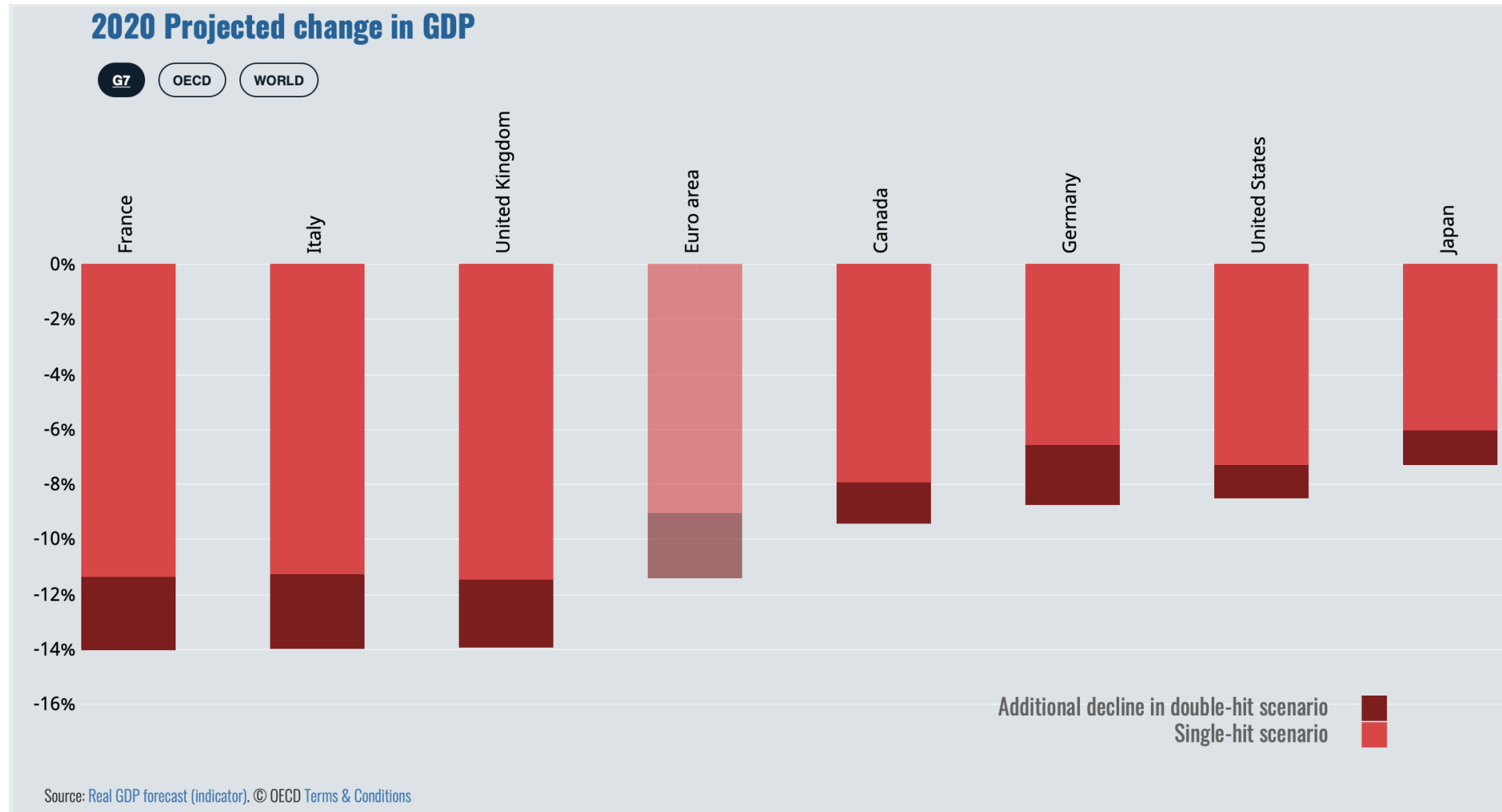
April 2020 IMF forecasts economic **contraction for 2020:**

- » World 3%
- » 6.5% UK

Going concern (background for 30 June interim reporting)

OECD June economic outlook for 2020

source: <https://www.oecd.org/economic-outlook/>



Going concern?

- » **Definition:** Going concern unless management either intends to liquidate/cease trading, or **has no realistic alternative** but to do so. (IAS 1.25)
- » Mandatory going concern assessment must include events after the end of the reporting period! (IAS 10.16) If conclude:
 - » **not going concern:** disclose that fact, the basis of preparation used and the reason why the entity is not regarded as a going concern.
 - » **Is going concern** but there are **material uncertainties/significant doubt** about going concern: disclose those uncertainties.

Events after the reporting period

Is Covid-19 an: (i) adjusting event; (ii) non-adjusting event; (iii) basis of preparation event; (iv) ignorable event (immaterial); or (v) it depends?

- » If **basis of preparation**, use other than going concern basis of preparation + disclosure.
- » If **adjusting**, update the accounting (recognition and measurement) and disclosure.
- » If **non-adjusting** Covid-19 event, disclose:
 - » nature of the event: the Coronavirus outbreak (and how it affects the entity)
 - » financial effect:
 - » because of significant economic uncertainties consider disclosing in addition to (or perhaps instead of) a single amount a **range based on different scenarios** of the length of the outbreak and the shape (V, U, L, W) and the strength of the recovery.
 - » material accounting consequences that are not obvious from the disclosed quantitative effects. For example, changes in classification, level of the fair value measurement hierarchy).

Non-financial asset impairments

- » **Impairment indicators** Covid-19 likely triggers for many businesses
- » **Goodwill** and indefinite intangibles: annual test + when indicated at interim/annual reporting date
- » When **discounting cash flows**: inputs for ViU (entity-specific perspective) are different from fair value (market participant perspective) less costs of disposal.
 - » Because of the significant Covid-19 uncertainties **expected cash flow approach (multiple scenarios)** better than single outcome approach.
 - » If ViU **don't double count**: fixed price forward contracts (onerous, in scope of IFRS 9 etc)
- » **Disclosures** for goodwill and indefinite intangibles impairment test (IAS 36.134-136) and consider whether KMA (ie IAS 1.125-129 disclosures)

Government grants and other government assistance

- » **Many Covid-19 government assistance programmes.**
- » Must determine (consider any adjusting events after the reporting period) whether any element of a programme is a government grant.
- » **Definition of government grants:** “assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.” (IAS 20.3)
 - » Examples of assistance that cannot reasonably have a value placed upon them are free technical or marketing advice and the provision of guarantees. (IAS 20.35)
 - » Excludes: benefits in determining taxable profit or on the basis of income tax liability and government participation in the ownership of the entity. (IAS 20.2(b) and (c))

Government grants and other government assistance (continued)

- » If **government assistance (that does not satisfy the definition of a government grant)**: consider (on the basis of its significance) disclosing the nature, extent and duration of (ie the overarching fair presentation consideration).
- » If **government grant**:
 - » Determine whether recognition criteria are satisfied, ie, 'reasonable assurance' that the grant will be received (ie entity will comply with conditions and government is practically able to deliver the promised benefits?); and
 - » (if recognised) identify the expense/economic loss the grant is designed to compensate for (because grant accounting requires 'matching' the grant income to that expense, ie income & expense in profit or loss of the same period).
- » Note: bigger accounting firms provide guidance on how they see the notions specified in IAS 20 could be applied consistently.