IFRS® Foundation

Session 1

Covid-19 regulatory panel

Darrel Scott – Board Member IASB

Introduction

- The covid-19 pandemic represents an unprecedented global crisis, affecting not only our collective health and well being, but the global economy
- The International Accounting Standards Board (Board) and staff share concerns about the impact of covid-19
- We are actively monitoring financial reporting issues arising from covid-19

Covid-19 and the Board’s work

The Board has taken the following steps to help stakeholders

1.

Supporting application

- Supporting application of IFRS Standards in the light of covid-19

Covid-19 and the Board's work

The Board has taken the following steps to help stakeholders

1.

Supporting application

- Supporting application of IFRS Standards in the light of covid-19

2.

Updated timelines

- Updating timelines for projects and consultation documents

Covid-19 and the Board's work

The Board has taken the following steps to help stakeholders

1\.

Supporting application

- Supporting application of IFRS Standards in the light of covid-19

2\.

Updated timelines

- Updating timelines for projects and consultation documents

3\.

Continuing to be available for stakeholders

- Engaging with stakeholders virtually

1. Supporting Application

- Responding to urgent issues arising from covid-19 through discussions with stakeholders, educational material, and, when necessary, amendments to IFRS Standards
- If urgent standard-setting is needed, the Board will act quickly, whilst adhering to due process
    - Ensures all perspectives are transparently considered and unintended consequences are limited before changes are finalised

Example 1: IFRS 9 and covid-19

Educational material: Application of IFRS 9 *Financial Instruments* in accounting for expected credit losses (ECLs) in the current environment

This educational material is intended to support consistent application of requirements in IFRS Standards

1. Supporting Application
Educational material

Example 2: IFRS 16 and covid-19

Educational material: Application of IFRS 16 Leases and other Standards to rent concessions granted as a result of the covid-19 pandemic

This educational material is intended to support consistent application of requirements in IFRS Standards

1. Supporting Application

Example 3: Amendment to IFRS 16

Provides optional practical relief for lessees in accounting for particular rent concessions occurring as a direct consequence of the covid-19 pandemic

2. Updated Timelines

Advancement of time-sensitive projects

We continue to advance with:

- Amendments to IFRS 17 (expected in June 2020)
- IBOR reform and its effects on Financial Reporting—Phase II (expected in Q3 2020)

Deferral of effective date

Proposal to defer to 1 January 2023 the mandatory effective date of the amendments to IAS 1 relating to the Classification of Liabilities as Current or Non-Current

Consultation documents*

- Extended consultation period of documents currently open for comments to give stakeholders time to respond effectively
- Revised the timelines for forthcoming consultation documents

Bundling of narrow scope amendments

In May 2020, the Board issued several narrow-scope amendments to IFRS Standards originally planned for March and April 2020 to facilitate more efficient post-publication procedures by our stakeholders

3. Continuing to be available for stakeholder

Meetings are still publicly observable, consistent with our commitment to transparency and due process. The Board is progressing time-sensitive projects and those:

- for which it has committed to publish a consultation document in the coming months; or
- that are in a phase that currently does not require stakeholder involvement

Virtual meetings: [https://www.ifrs.org/news-and-events/calendar/].

3. Continuing to be available for stakeholder

Stakeholders can access our website for the latest:

- news releases
- work plan
- educational materials

3. Continuing to be available for stakeholder

Board members and staff are working remotely and can be contacted as usual:

- Calls to the switchboard (+44 (0)20 72466410) passed to the relevant staff members
- Interpretations Committee remains active [ifric@ifrs.org]

Session 2

Covid-19 IFRS reporting panel

Darrel Scott – Board Member IASB

What we have heard

- Expected Credit loss model
  - Forward looking information
  - Uncertainty and high level of judgment
  - Newness of models
  - Significant Regulatory input

What we have heard

- Expected credit loss model
- Effects of government relief to borrowers
  - Modifications
  - SPPI test
  - Impairments

What we have heard

- Expected credit loss model
- Effects of government relief to borrowers
- Effects of government relief to lenders
  - Gross versus net
  - Integral vs non-integral
  - SPPI test

What we have heard

- Expected credit loss model
- Effects of government relief to borrowers
- Effects of government relief to lenders
- Complexity of many of the jurisdictional solutions
- Extreme ‘locality’ - many government programs are ‘extremely unique’ to individual jurisdictions
- Government regulator pronouncements

IFRS 9 Requirements
Expected credit loss model

Assessing deterioration

- Use best information available without undue cost and effort
- Information to consider includes:
  - Borrower specific, Macro-economic, Internal default rates and probabilities of default, External pricing, Credit ratings, Delinquencies
- Rebuttable presumption assets 30 days past due have deteriorated

IFRS 9 Requirements
Expected credit loss model

Measurement

- Impairment loss measured as difference between carrying value and Present Value of expected future cash flows
- Probability weighted outcome
  - Need not consider every possible outcome
  - Must consider (at least) possibility that a default will occur and that a default will not occur
- Time value of money
  - Reasonable rate between (and including) risk-free rate and effective interest rate

IFRS 9 Requirements
Integral cash flows

- IFRS 9 requires the inclusion of cash flows from collateral and other credit enhancements in measure ECL if
  - They are part of contractual terms, and
  - Not separately recognised
- Discussed at IFRIC, no conclusions

IFRS 9 Requirements
Modification of assets

- No guidance in IFRS 9 on when modification results in derecognition
- IFRIC analogised to liability guidance to suggest that change would need to be ‘substantial’
- If modification is substantial, then:
  - Derecognise original instrument, and
  - Recognise new instrument
  - difference in values to P&L
- If not substantial
  - Recognise modification profit or loss

IFRS 9 Requirements
SPPI test

- If cash flows solely Principal and Interest, measurement depends on the business model
- Interest is consideration received for time value of money and credit risk
- Standard provides guidance on application of the principle when:
  - Interest rate is leveraged,
  - There is an ‘interest rate mismatch’,
  - Regulated rates
- Non interest components may include forgiveness of debt

Supporting Application

- Feed back on educational material was positive
- No further urgent requests in the pipeline
  - Issues frequently too specific to jurisdiction entity for Board to provide useful guidance
  - Significant in-jurisdiction guidance becoming available
- Virtuous transparency circle