COVID Themes

Thought Leadership

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Please note:

- DISCLAIMER

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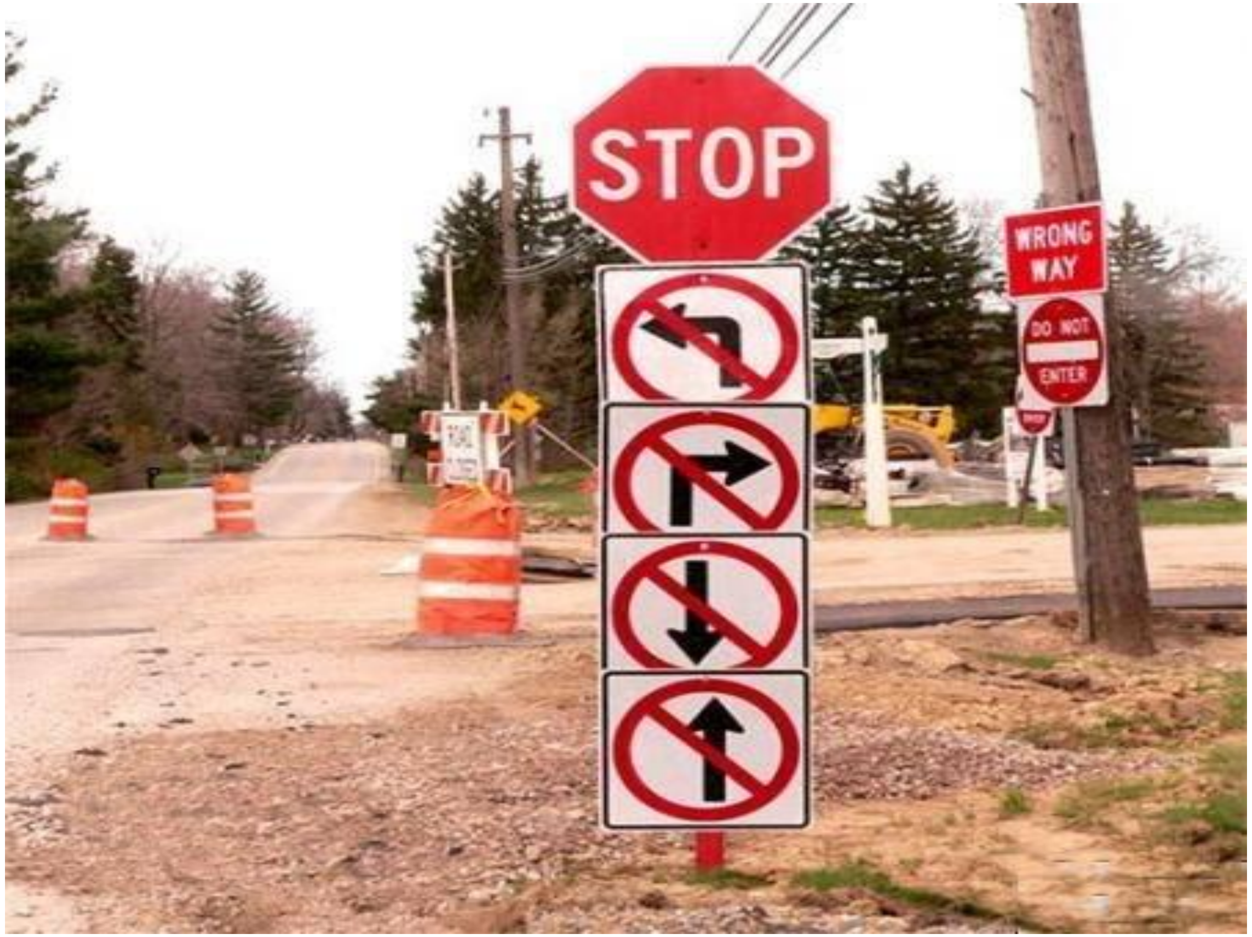
COVID-19 Implications

Governance & Risk



Opportunity for

Good practice

Enhancing disclosures

Interim reporting

Better disclosure

Useful and relevant information

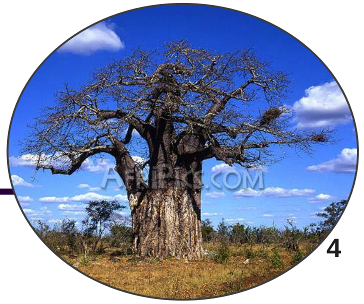
COVID-19 Implications

Going concern risk

IAS 1 paragraphs 25 and 26 require the directors to make an assessment of the company's ability to continue to operate as a going concern for **at least** 12 months from the balance sheet date. As part of this assessment, the directors must consider whether there are any **material uncertainties** that may cast significant doubt on the ability of the company to continue to operate as a going concern. Where these uncertainties exist, they must be disclosed.

Determining whether or not a material uncertainty exists will be considerably more difficult given the impact of Covid-19. Furthermore, management may have exercised **significant judgement** in reaching the conclusion that no material uncertainties exist.

In cases where the board concludes that a material uncertainty does not exist but the conclusion reached required the application of **significant judgement**, IAS 1 paragraph 122 requires the disclosure of this judgement. (IFRIC July 2014).



Going concern

- To aid user understanding during the uncertain environment, **interim financial statements** are encouraged to provide going concern disclosures

- **Company specific going concern disclosures** to explain clearly the key assumptions and judgements that the board has made in determining whether or not the company is a going concern and whether or not there are material uncertainties.

- **Alignment** between integrated report and annual financial statements

- Going concern disclosures could be further improved by including information which explains **any reverse stress testing** that has been conducted.

Helpful Going Concern Disclosures

- Clearly explain **whether there are any material uncertainties** that may cast doubt on the company's going concern status.
- Clearly state the **period the going concern assessment covers**. Explain the **different going concern scenarios** that have been considered. *The best disclosure clearly states the key Covid-19 assumptions within each forecast and how those assumptions affected the going concern conclusion.*
- Indicate which ***inputs have been subject to stress tests and explain how these stress tests affect the going concern conclusions.***
- **Identify and explain any mitigating actions** the board could take to improve liquidity.
- Explain any **post balance sheet changes** to liquidity, specifically the arrangement of new lending facilities, the extension of existing facilities or the renegotiation or waiving of bank covenants.
- Describe the **level of drawn and undrawn finance facilities in place**. State what covenants are in place and whether they expect to breach them.
- Explain whether the company **would need to make structural changes** in order to continue to operate as a going concern.

COVID-19 Implications

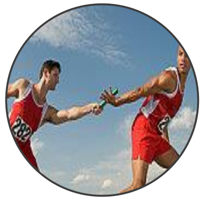
Cash, liquidity and compliance

IFRS 7 Financial Instruments: Disclosures' requires disclosure of sufficient information about the **nature and extent of a company's risks exposure from financial instruments, including liquidity risk**.

Disclosure of information about sources of liquidity, risk exposure and the steps that companies are taking to manage their liquidity risk is critically important in the current environment.

Explanation of liquidity risk and sources of finance
Access to cash and sources of finance
Changes or likely changes to the existing financing arrangements
New arrangements entered into
Credit gradings and any changes, which impact cost or access to funding
Subsequent developments after reporting date

Opportunity to provide enhanced disclosures in the interim report



COVID-19 Implications

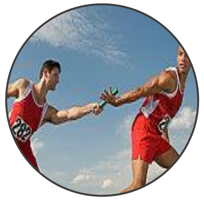
Cash, liquidity and compliance

Government support
Explain whether and how they have incorporated funds available under a government support scheme in their going concern assessment

Covenant breaches
Classification as current at reporting date, even if rectified after reporting date

Covenant ratios
Available headroom
Adoption of IFRS 16 on covenants

Maturity analysis
Undiscounted contractual cash flows
Time bands that provide useful and relevant information
(greater degree of disaggregation?)



COVID-19 Implications

Dividend risk

IAS 1 paragraph 134 requires disclosure of the company's objectives, policies and processes for managing capital, which should include qualitative and quantitative information.

Explain any changes in capital management in response to Covid-19

An **explanation of the dividend policy**, in particular:

- where the dividend has been suspended, it is helpful to indicate when the period of suspension is expected to end or the decision revised
- where the dividend policy is unchanged, it is helpful to explain how this decision links to the viability assessment.

COVID-19 Implications

Credit loss provisioning

Following the adoption of IFRS 9, IAS 1 was amended to require that the **impairment loss** arising from applying the expected credit loss model should be presented as a **separate line item on the face of the statement of profit or loss** (paragraph 82(ba)).

The IFRS 9 expected credit loss model (ECL) requires the use of reasonable and supportable forward looking probability-weighted information in addition to the historical data. IFRS 9 requires an unbiased expected credit loss provision, neither overly optimistic nor overly pessimistic.

Explain:

- Changes to their credit risk management in response to Covid-19
- Concentration of credit risk
- Forward looking information incorporated in the ECL measurement
- Key sources of estimation uncertainty

Include in interim reporting

COVID-19 Implications

Impairments

Consider the Covid-19 pandemic an indicator of impairment because of the adverse effect it has had on businesses, market capitalisation and the markets.

Goodwill, indefinite life intangibles and intangibles not yet available for use **may need to be tested outside of their annual cycle**

Effects of the Covid-19 pandemic may also be an indicator of impairment for a company's property plant and equipment, right-of-use assets and other non-financial assets

Should the current conditions improve in future, the impairment losses can be reversed, with the exception of losses recognised for goodwill (IAS 36 paragraphs 109-125).

When determining the discount rate, care should be taken not to double-count the risk. IAS 36 paragraph 56 states that the discount rate used to measure an asset's value-in-use shall not reflect risks for which the future cash flow estimates have been adjusted

Interim accounts to include more details of how Covid-19 has impacted a company's impairment testing.

COVID-19 Implications

Provisions, onerous contracts and leases

Management might be considering reducing its workforce as a result of Covid-19 and the steps taken to control it. A provision for redundancies is **recognised only when the company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring plan**.

Consideration should be given as to whether contracts have become onerous as a result of the crisis. As part of this assessment, management will need to consider whether contracts with customers have become loss making, and if so, a provision will need to be recognised in accordance with the measurement guidance for onerous contracts contained within IAS 37.

Lessees will need to consider **whether the non-payment of rent constitutes a default event** for any other financial instruments held which may cause those financial instruments to become repayable on demand.

Lessees need to consider if they will **take advantage of the practical expedient** introduced as an amendment to IFRS 16 by the International Accounting Standards Board to treat specific rent concessions related to Covid–19 as though they were not lease modifications.

Thank you!

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