

In depth

A look at current financial reporting issues

7 April 2020

Accounting implications of the effects of COVID-19

At a glance

This In depth considers the impact of the new coronavirus ('COVID-19' or 'the virus') on the financial statements of entities whose business is affected by the virus for periods ending after 31 December 2019.

There are broad IFRS implications, including the impact on:

- measurement of non-financial assets;
- measurement of financial instruments and leases;
- revenue recognition;
- non-financial obligations;
- going concern;
- disclosures; and
- interim financial statements.

Background

The COVID-19 outbreak has developed rapidly throughout the world in 2020. Measures taken to respond to and contain the virus have significantly affected economic activity, which in turn has implications for financial reporting.

Measures to prevent transmission of the virus in New Zealand were gradually introduced including limiting the movement of people until finally on 25 March 2020, New Zealand moved into Level 4 – Eliminate, requiring all non-essential businesses to close and people instructed to stay at home except for essential activities. This has had an immediate impact on all New Zealand businesses. Action taken globally to respond to the virus has also resulted in the disruption of supply chains and the production of goods throughout the world and lower economic activity has resulted in reduced demand for many goods and services. Financial services entities such as banks that lend to affected entities, insurers that provide protection to affected individuals and businesses, and investment funds or other investors that invest in affected entities are also affected.

On 25 March 2020, the New Zealand Government enacted the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act (COVID-19 Response Act) that introduced taxation and social assistance amendments in response to the economic impacts of

the virus. On 27 March and 28 March the New Zealand Government announced further support for the economy in the form of a wage subsidy scheme, which is expected to inject a further \$8 billion to \$12 billion into the economy depending on the uptake by businesses.

It is expected that there will be further developments and entities should keep monitoring these as the situation evolves.

Management should carefully consider the impact of COVID-19 and the Government's support packages on both interim and annual financial statements. The impact could be significant for many businesses. The implications for financial statements include not only the measurement of assets and liabilities but also disclosure and possibly an entity's ability to continue as a going concern. The implications, including the indirect effects from lower economic activity, should be considered by all entities, not just those in the industries or territories most significantly affected.

The following guidance is based on IFRS for "for profit" entities. The considerations are largely consistent for Tier 1 and Tier 2 public benefit entities (PBEs) applying PBE Standards. Where this may not be the case, we have highlighted this in the relevant section.

Non-financial assets

Impairment under IAS 36 Impairment of assets

Many businesses will have to consider the potential impairment of non-financial assets. IAS 36 requires that goodwill and indefinite lived intangible assets are tested for impairment at a minimum every year and all other non-financial assets whenever there is an indicator that those assets might be impaired. Temporarily ceasing operations or suffering an immediate decline in demand or prices and profitability are clearly events that might indicate impairment. However, the impact of reduced economic activity and lower revenues are likely to affect almost any entity and might also indicate impairment.

Management should consider whether:

- COVID-19 and the measures taken to control it are likely to reduce future cash inflows or increase operating and other costs for the reasons described above;
- these events, including for example a fall in an entity's share price such that market capitalisation is lower than carry value, are an indicator of impairment requiring that goodwill and indefinite lived intangible assets are tested outside of the annual cycle or that other assets are tested;
- the assumptions and cash flow forecasts used to test for impairment should be updated to reflect the potential impact of COVID-19;

- budgets, forecasts and other assumptions from an earlier impairment testing date that were used to determine the recoverable amount of an asset should be revised to reflect the economic conditions at the balance sheet date, specifically to address increased risk and uncertainty;
- an expected cash flow approach (multiple probability-weighted scenarios) might be a better way to estimate the recoverable amount than a single predicted outcome to capture the increased risk and uncertainty. The potential impact of measures taken to control the spread of the virus could be included as additional scenarios in an expected cash flow approach. There might be a range of potential outcomes considering different scenarios;
- the factors used to determine the discount rate, however the recoverable amount is determined, should be revised to reflect the impact of the virus and the measures taken to control it, for example the risk-free rate, country risk and asset risk. The discount rate used in a single predicted outcome approach should be adjusted to incorporate the risk associated with COVID-19. Management should ensure that appropriate risk is reflected in either the cash flows or the discount rate.

Whichever approach management chooses to reflect the expectations about possible variations in the expected future cash flows, the outcome should reflect the expected present value of the future cash flows. When fair value is used to determine the recoverable amount, the assumptions made should reflect market participant assumptions.

PBEs should also consider PBE IPSAS 21 *Impairment of non-cash generating assets* to determine whether there has been a loss in the future economic benefits or service potential of non-cash generating assets.

Disclosures

The disclosure requirements in IAS 36 are extensive. Management should consider specifically the requirements to disclose assumptions and sensitivities in the context of testing goodwill and indefinite life intangible assets.

Management should also consider the requirements in IAS 1 Presentation of financial statements to disclose the major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the financial statements in a subsequent period.



Associates and joint ventures accounted for using the equity method

Interests in joint ventures and associates accounted for under the equity method are tested for impairment in accordance with IAS 28 *Investments in associates and joint ventures*. Management should consider whether the impact of COVID-19 and the measures taken to control it are an indicator that an associate or joint venture is impaired.

Interests in joint ventures and associates that are in the scope of IFRS 9 *Financial instruments* are subject to that standard's impairment guidance.

Inventories

It might be necessary to write-down inventories to net realisable value. These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales. Entities should assess the significance of any write-downs and whether they require disclosure in accordance with IAS 2 *Inventories*.

IAS 2 requires that fixed production overheads are included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory.

Property, plant and equipment

The virus might mean that property, plant and equipment is under-utilised or not utilised for a period or that capital projects are suspended. IAS 16 *Property, plant and equipment* requires that depreciation continues to be charged in the income statement while an asset is temporarily idle. IAS 23 *Borrowing costs* requires that the capitalisation of interest is suspended when development of an asset is suspended for an extended period.

Fair value measurement of non-financial asset and liabilities (including investment properties)

Fair values are likely to change significantly as a result of COVID-19.

Valuation best practices support the use of multiple valuation techniques when estimating the fair values. Changing methodologies (for example, from a market multiple approach to a discounted cash flow approach), or changing the weighting where multiple valuation techniques are used, would be appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. This change would be considered a change in accounting estimate.

The discount rate used in a discounted cash flow technique includes a number of market inputs, including a risk free rate and a cost of debt. In most jurisdictions, risk-free rates have declined significantly in 2020, while the cost of debt has declined for some entities and increased for others. This could result, for some entities, in a lower weighted average cost of capital, and thus discount rate. However, entities should remember that the discount rate needs to be calibrated to the risks in the cash flow forecast, including the long-term growth rate.

For-profit entities should also refer to fair value measurements of financial instruments under IFRS 13 *Fair value measurement*. PBEs should consider the guidance in the PBE Standard that is specific to the transaction or balance for guidance (if any).

Financial instruments and leases

Classification and measurement of financial assets under IFRS 9

Under IFRS 9, the classification of financial assets that are debt instruments depends on both (a) the entity's business model for managing the financial assets, and (b) whether the contractual cash flows of the financial asset are solely payments of principal and interest.

Management should consider the impact of COVID-19 on the classification of these assets, in particular whether the entity's business model for managing financial assets might have changed.

Additionally, the impact of any changes to the terms of a loan agreement, perhaps because of actions taken by government or the renegotiation of terms between a borrower and a lender, should be assessed. Lenders should apply the guidance in IFRS 9 to determine the impact of the change in terms, including those for determining whether the change to the terms results in derecognition and, if not, for recognising a modification gain or loss.

Impairment under IFRS 9

Where an entity has any financial instruments that are in the scope of IFRS 9's expected credit loss model (ECL) management should consider the impact of COVID-19 on the ECL. Instruments to be considered include loans, trade and other receivables, debt instruments not measured at fair value through profit or loss, contract assets, lease receivables, financial guarantees and loan commitments.

Management should consider the impact of COVID-19 on both:

- whether the ECL is measured at a 12-month or lifetime ECL. If the credit risk (risk of default) has increased significantly, since initial recognition the ECL is measured at the lifetime ECL rather than the 12-month ECL (except for assets subject to the simplified approach, such as short-term receivables and contract assets, which are always measured using lifetime ECL); and
- the estimate of ECL itself. This will include all of:
 - the credit risk (risk of default). For example, this may increase if the debtor's business is adversely impacted by COVID-19;
 - the amount at risk if the debtor defaults (exposure at default). For example, debtors affected by COVID-19 may draw down on existing unused borrowing facilities, or cease making discretionary over payments, or take longer than normal to pay resulting in a greater amount at risk; and
 - the estimated loss as a result of default (loss given default). For example, this may increase if COVID-19 results in a decrease in the fair value of a non-financial asset pledged as collateral.

Even when a borrower is expected to repay all amounts owed but later than contractually required, there will be a credit loss if the lender is not compensated for the lost time value of money.

IFRS 9 requires that forward-looking information (including macroeconomic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. Forward-looking information might include additional downside scenarios related to the spread of COVID-19. This might be achieved by adding one or more additional scenarios to the entity's existing scenarios, amending one or more of the existing scenarios (for example, to reflect a more severe downside(s) and/or to increase their weighting), or using an 'overlay' if the impact is not included in the entity's main expected credit loss model.

Banks are being asked to support borrowers affected by COVID-19. This could be in the form of payment holidays on existing loans or reduced fees and interest rates on new loans. Entities giving such support should consider the impact on their financial statements including whether:

- payment holidays indicate the affected loans have suffered a significant increase in credit risk or default, and therefore moved to stage 2 or 3 of the ECL model; and
- reduced fees or interest rates on new loans indicate that the loans are not made at a market rate.

Management should also consider the need to disclose the impact of the virus on the impairment of financial assets. For example, disclosures required by IFRS 7 *Financial instruments: Disclosures* that might be affected include how the impact of forward looking information has been incorporated into the ECL estimate, details of significant changes in assumptions made in the reporting period, and changes in the ECL that result from assets moving from stage 1 to stage 2.

Hedge accounting under IFRS 9

Management should consider the impact of COVID-19 on its existing hedges, in particular whether the hedges continue to meet the criteria for hedge accounting. For example, if a hedged forecast is no longer highly probable to occur, hedge accounting is discontinued. For similar reasons, management should also consider the impact of COVID-19 on its ability to designate new hedges.

Hedge accounting under IAS 39 Financial instruments

Management should consider the impact of COVID-19 on its existing hedges, in particular whether hedges continue to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur or no longer highly effective, hedge accounting is discontinued. For similar reasons, management should also consider the impact of COVID-19 on its ability to designate new hedges.

Borrowings and other financial liabilities under IFRS 9

The impact of any changes to the terms of a loan agreement, perhaps because of actions taken by the government or the renegotiation of terms with the lender, should be assessed. Borrowers should apply the guidance in IFRS 9 to determine the impact of the change in terms, including those for determining whether the change to the terms results in derecognition and, if not, for recognising a modification gain or loss.

'Own use' under IFRS 9

Under IFRS 9, contracts to buy or sell a non-financial item that can be settled net in cash are within the scope of the standard (with the result that they are typically accounted for as derivatives), unless the contracts were entered into and continue to be held for the purpose of receipt or delivery of non-financial items to meet the entity's expected purchase, sale or usage requirements. COVID-19 might impact whether some contracts meet these 'own use' requirements. For example, disruption to an entity's supply chain due to COVID-19 might have the effect that certain commodity contracts will be settled net in cash rather than by physical delivery.

Disclosures

Additional disclosures might be required. IFRS 7 requires, amongst other things, disclosure of defaults and breaches of loans payable, of gains and losses arising from derecognition or modification, and of any reclassification from the cash flow hedge reserve that results from hedged future cash flows no longer being expected to occur.

Fair value of financial assets and liabilities

The fair value of an asset or liability at the reporting date should be determined in accordance with the applicable IFRS standards. When fair value is based on an observable market price, the quoted price at the reporting date should be used. The fair value of an asset reflects a hypothetical exit transaction at the reporting date. Changes in market prices after the reporting date are therefore not reflected in asset valuation.

The volatility of prices on various markets has increased as a result of the spread of COVID-19. This affects the fair value measurement either directly – if fair value is determined based on market prices (for example, in case of shares or debt securities traded on an active market), or indirectly – for example, if a valuation technique is based on inputs that are derived from volatile markets.

Counterparty credit risk and the credit spread that is used to determine fair value might also increase. However, the impact of actions taken by governments to stimulate the economy might reduce risk-free interest rates.

A change in the fair value measurement affects the disclosures required by IFRS 13, which requires entities to disclose the valuation techniques and the inputs used in the fair value measurement as well as the sensitivity of the valuation to changes in assumptions. It might also affect the sensitivity analysis required for recurring fair value measurements categorised within level 3 of the fair value hierarchy. The number of instruments classified as level 3 might increase.

For PBE entities, any changes in fair value measurement would affect the disclosures required by PBE IPSAS 30 *Financial instruments: Disclosures*.

Subsidiaries, associates and joint ventures measured at fair value

The fair values of investments in subsidiaries, associates and joint ventures might be affected by equity market volatility. The starting point for valuations of listed companies is the market prices at the reporting date.

Entities are required to disclose changes in business or economic circumstances that affect the fair value of investment entities or investments in associates and joint ventures carried at fair value under IFRS 9.

Leases

A lessor and a lessee might renegotiate the terms of a lease as a result of COVID-19 or a lessor might grant a lessee a concession of some sort in connection with lease payments. In New Zealand, on 25 March 2020, the Government put a temporary freeze on rental increases and increased tenant's protection against tenancy terminations.

Both lessors and lessees should consider the requirements of IFRS 16 *Leases* and assess whether the concession granted or received should be accounted for as a lease modification.

PBEs should consider the appropriate accounting for modifications under PBE IPSAS 13 *Leases*.

There may also be further measures taken by the New Zealand government to help lessors and lessees, in which case entities should consider whether incentives received are government grants and accounted for in accordance with IAS 20 *Accounting for government grants and disclosure of government assistance*.

PBEs should consider whether government assistance is accounted for as revenue from non-exchange transactions under PBE IPSAS 23 *Revenue from non-exchange transactions*.

Cash and cash equivalents

IAS 7 *Statement of Cash Flows* defines cash equivalents as short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. COVID-19 has resulted in the value of some money market and other funds declining more than insignificantly. Furthermore, some money market funds include clauses which allow the fund manager to restrict redemption in unlikely events, one of which might be the result of COVID-19. Management should consider whether investments previously classified as cash equivalents continue to meet the definition in light of these declines in value and/or restrictions on redemption. Investments might need to be reclassified out of cash equivalents.

Revenue recognition

An entity's sales and revenue might decline as a result of the reduced economic activity following the steps taken to control the virus. This is accounted for when it happens.

However, there could also be an effect on the assumptions made by management in measuring the revenue from goods or services already delivered and in particular on the measurement of variable consideration. For example, reduced demand could lead to an increase in expected returns, additional price concessions, reduced volume discounts, penalties for late delivery or a reduction in the prices that can be obtained by a customer. All of these could affect the measurement of variable consideration. IFRS 15 Revenue from Contracts with Customers requires that variable consideration is recognised only when it is highly probable that amounts recognised will not be reversed when the uncertainty is resolved.

Management should reconsider both its estimate of variable consideration and whether the recognition threshold is met.

IFRS 15 is applied only to those contracts where management expects its customer to meet its obligations as they fall due. Management might choose to continue to supply a customer even when it is aware that the customer might not be able to pay for some or all the goods being supplied. Revenue is recognised in these circumstances only when it is probable that the customer will pay the transaction price when it is due net of any price concession.

IFRS 15 requires that an entity discloses information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue. This might require for example, information about how an entity has applied its policies taking into account the uncertainty that arises from the virus, the significant judgements applied, for example whether a customer is able to pay, and the significant estimates made, for example in connection with variable consideration.

Government assistance

Governments around the world have reacted to the impact of COVID-19 with a variety of measures, including tax rebates and holidays and, in some cases, specific support for businesses in order that those businesses are able to support their customers.

In New Zealand, among other measures, the COVID-19 Response Act reintroduces the tax depreciation of buildings other than residential buildings from the 2020/21 tax year. The accounting implications of this are discussed under Income taxes below. The New Zealand government also introduced a wage subsidy scheme, which is discussed below.

Entities should consider whether any other form of assistance received from government meets the definition of a government grant in IAS 20 or revenue from non-exchange transactions under PBE IPSAS 23. Entities should apply IAS 12 Income taxes where the government assistance relates to income tax.

Government assistance – wage subsidy scheme

In March, the New Zealand Government announced a wage subsidy scheme which provides government financial assistance to employers to help pay employee salary and wages for a 12-week period.

This assistance qualifies as a government grant within the scope of IAS 20.

The subsidy should be recognised at the point of submitting the application, subject to the entity having sufficient evidence that the eligibility criteria are satisfied when making the submission.

The subsidy income should be recognised in profit or loss as the related wages and salaries are incurred.

IAS 20 does not apply to PBEs, so the applicable standard is PBE IPSAS 23. The accounting treatment is however broadly similar, and the wage subsidy should be recognised as an asset when the claim is submitted. The entity should also recognise a liability at this time until the conditions attached to the grant are satisfied. As the employer satisfies the conditions and pays the salary or wage to the employee, it should reduce the liability and recognise revenue in the statement of comprehensive revenue and expense.

Non-financial obligations

Provisions

IAS 37 *Provisions, contingent liabilities and contingent assets*, requires a provision to be recognised only where an entity has a present obligation; it is probable that an outflow of resources is required to settle the obligation; and a reliable estimate can be made. Management's actions in relation to the virus should be accounted for as a provision only to the extent that there is a present obligation for which the outflow of economic benefits is probable and can be reliably estimated. For example, a provision for restructuring should be recognised only when there is a detailed formal plan for the restructuring and management has raised a valid expectation in those affected that the plan will be implemented.

IAS 37 does not permit provisions for future operating costs or future business recovery costs.

IAS 37 requires that an entity disclose the nature of the obligation and the expected timing of the outflow of economic benefits.

Onerous contracts

Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting the contract (that is, the lower of the cost to exit or breach the contract and the cost of fulfilling it). Such contracts might include, for example, supply contracts that the entity is not able to fulfil because of the virus. Management should consider whether any of its contracts have become onerous.

Insurance recoveries

One of the steps taken to control the spread of the virus is to require that some businesses close temporarily. An entity might have business continuity insurance and be able to recover some or all of the costs of closing. Management should consider whether the losses arising from COVID-19 are covered by its insurance policies. The benefit of such insurance is recognised when the recovery is virtually certain. This is typically when the insurer has accepted that there is a valid claim and management is satisfied that the insurer can meet its obligations. The benefit of insurance is often recognised later than the costs for which it compensates.

Employee benefits and share-based payments

Management should consider whether any of the assumptions used to measure employee benefits and share based payments should be revised. For example, the yield on high-quality bonds or the risk-free interest rate in a particular currency might have changed as a result of recent developments or the probability of an employee meeting the vesting conditions for bonuses or share-based payments might have changed.

Management should consider the impact of any changes made to the terms of, for example, a share-based payment plan, to address the changes in the economic environment and the likelihood that performance conditions will be met. To the extent that such changes are beneficial to the employee, they would be accounted for as a modification and an additional expense recognised. Management should be aware that cancelling a share-based payment award even if the vesting conditions are unlikely to be satisfied results in the immediate recognition of the remaining expense.

Management should also consider whether it has a legal or constructive obligation to its employees in connection with the virus, for example sick pay or payments to employees that self-isolate, for which a liability should be recognised.

Management might be considering reducing its workforce as a result of the virus. IAS 19 *Employee benefits* requires that a liability for employee termination is recognised only when the entity can no longer withdraw the offer of those benefits or the costs of a related restructuring are recognised in accordance with IAS 37.

IFRS 2 *Share-based payment* requires that entities explain modifications to share-based payments, along with the incremental fair value granted, as well as information about how the incremental fair value was determined.

IAS 19 requires extensive disclosure of the assumptions used to estimate employee benefit liabilities, together with sensitivities and changes in those assumptions.

Income taxes – NZ Government reinstates tax depreciation of buildings

The COVID-19 Response Act reintroduces tax depreciation for buildings other than residential buildings and also going forward allows tax depreciation on newly acquired buildings and any capital improvements made to existing buildings from the 2020/21 tax year. The tax depreciation rate will be 2% diminishing value or 1.5% straight line.

Tax depreciation of buildings was removed in 2010 with effect from the 2011/12 tax year. Management will need to assess the deferred tax impact of the reinstatement of tax depreciation on buildings:

- The change should only impact buildings where deferred tax is recognised on a *recovery through use basis*. The deferred tax implications will differ depending on whether the building was acquired prior to, or subsequent to the 2010 tax change:
 - Buildings acquired before the 2010 tax change: In 2010, the tax depreciation on buildings with an estimated useful life of 50 years or more was reduced to 0%. This change reduced the tax base of those buildings where deferred tax was measured on a use basis as future tax depreciation deductions were no longer available from the 2011/12 tax year. This resulted in an increase in the deferred tax liability for those buildings. The reinstatement of tax depreciation on these buildings will increase the tax base by effectively reversing the original deferred tax liability. To the extent the new tax base exceeds the carrying value a deferred tax asset may arise.
 - Buildings acquired subsequent to the 2010 tax change: The deferred tax impact is more complex where buildings were acquired post May 2010 and the initial recognition exception has been applied. If the initial recognition exception was applied no deferred tax would have been recognised (other than in relation to subsequent revaluations). There is a degree of uncertainty on the application of IAS 12 for the tax change in these instances. One view is to continue not recognising deferred tax (other than revaluations) when the change occurs, unless the tax base exceeds the carrying value of the building, in which case a deferred tax asset will arise, subject to recoverability. We note that guidance may continue to evolve in this area in the coming months.
 - There is no change to deferred tax where deferred tax on buildings is recognised on a *recovery through sale basis*, e.g. investment property where the sale presumption is not rebutted.

The proposed changes may impact deferred tax calculations for entities with accounting periods ending on or after the date of enactment of the change (25 March 2020). For accounting periods

(including interims) ending before 25 March 2020, but where financial statements are still to be approved, the nature of the legislative change and an estimate of its financial effect should be disclosed as a non-adjusting post balance date event where this is material.

Other considerations related to income taxes

The virus could affect future profits as a result of direct and indirect factors (including effect on customers, suppliers, service providers). Asset impairment may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences. Entities with deferred tax assets should reassess forecast profits and the recoverability of deferred tax assets in accordance with IAS 12 taking into account the additional uncertainty arising from the virus and the steps taken to control it.

Management might also consider whether the impact of the virus affects its plans to distribute profits from subsidiaries and whether it therefore needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with IAS 1.

Breach of covenants

The financial impact of the virus might cause some entities to breach covenants on borrowings or trigger material adverse change clauses. This could result in loan repayment terms changing and some loans becoming repayable on demand. Management should consider whether the classification of loans and other financing liabilities between non-current and current is affected and in extreme situations whether the entity remains a going concern. Management should consider particularly the impact of any cross-default clauses. Management should also consider the effect of any changes in the terms of borrowings as a result of the circumstances described above and treat waivers obtained after the reporting date as non-adjusting events.

Events after the reporting period

The global situation is evolving rapidly. Management should therefore consider the requirements of IAS 10 Events after the reporting period and in particular whether the latest developments provide more information about the circumstances that existed at the reporting date. Events that provide more information about the spread of the virus and the related costs might be adjusting events. Events, such as the announcement or enactment of new measures to contain the virus or decisions taken by management are likely to be non-adjusting. Clear disclosure of non-adjusting events is required when this is material to the financial statements.

Going concern

Management should consider the potential implications of COVID-19 and the measures taken to control it when assessing the entity's ability to continue as a going concern. An entity is no longer a going concern if management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Management should consider the impact of measures taken by governments and local banks in its assessment of going concern. Management should also remember that events after the reporting date that indicate an entity is no longer a going concern are always adjusting events.

Material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern should be disclosed in accordance with IAS 1.

Disclosures including financial risk

General disclosures

Management should consider the specific requirements in IAS 1 to disclose significant accounting policies, the most significant judgements made in applying those accounting policies and the estimates that are most likely to result in an adjustment to profits in future periods. All of these disclosures might be different as a result of the impact of the virus. The extent of disclosures regarding estimation uncertainty might need to be increased. For example, the carrying amount of more items might be subject to a material change within the next year.

There might be individually significant financial effects of the virus, for example, individually material expenses such as an impairment or a modification adjustment. In addition to the disclosure requirements of individual standards, IAS 1 requires that an entity discloses separately on the face of the income statement (where an entity presents expenses by nature) or in the notes to the financial statements material items of income or expense. An entity might also present additional line items or sub-totals on the face of the income statement where this is necessary for an understanding of performance. Management should consider the specific requirements of IAS 1 if it discloses additional subtotals. There is also a requirement in IAS 1 to disclose information relevant to an understanding of the financial statements that is not otherwise disclosed.

Financial risks

Entities will need to disclose any changes in their financial risks such as credit risk, liquidity risk, currency risk and other price risk, or in their objectives, policies and processes for managing those risks. In particular additional disclosures about liquidity risk might be needed where the virus has affected an entity's normal levels of cash inflows from operations or its ability to access cash in other ways such as from factoring receivables or supplier finance.

Disclosure outside the financial statements

An entity's stakeholders will be interested in the impact of the virus and the measures taken to contain its spread. Some of these stakeholder's needs might be met more appropriately by disclosure outside the financial statements. Management might consider updating its analysis of the principal risks and uncertainties. Management should also consider any specific local disclosure requirements, for example, those issued by a local securities regulator. For example, The European Securities and Markets Authority has recently stated that, "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."

Interim financial statements

Many entities may first report the impact of the virus in interim financial statements. The recognition and measurement guidance described above applies equally to interim financial statements. There are typically no recognition or measurement exceptions for interim reporting, although management might have to consider whether the impact of the virus is a discrete event for the purposes of calculating the expected effective tax rate. IAS 34 *Interim financial reporting* states that there might be greater use of estimates in interim financial statements, but it requires that the information is reliable and that all relevant information is disclosed.

Interim financial information usually updates the information in the annual financial statements. However, IAS 34 requires that an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. This implies that additional disclosure should be given to reflect the financial impact of the virus and the measures taken to contain it. This disclosure should be entity specific and should reflect each entity's circumstances.

Where significant, the disclosures required by paragraph 15B in IAS 34 should be included, together with:

- the impact on the results, balance sheet and cash flows of the virus and the steps taken to control the spread;
- significant judgements that were not required previously, for example in connection with expected credit losses;
- updates to the disclosures of significant estimates; and
- events since the end of the interim period.

Reporting deadlines

In New Zealand, the Financial Markets Authority (FMA) have emphasised that it is important that sufficient time is taken by both the entity and the auditor to complete the annual financial reporting and auditing process, even if this results in a delay in reporting. The FMA further highlighted the importance of keeping proper accounting records as well as ensuring the financial statements include sufficient quantitative and qualitative disclosures to keep investors and markets informed of material developments.

The FMA is providing regulatory relief to Financial Markets Conduct Act reporting entities to give them an additional two months to provide their audited financial statements. For further updates, you can check the [FMA's dedicated page](#) for any COVID-19 related issues.

The NZX has also announced various measures to relieve some of the pressure on listed entities. For example, listed entities with balance dates falling between 1 January 2020 and 31 May 2020 will have to prepare and release their upcoming full year results announcement (and accompanying preliminary financial statements) within 90 days after the balance date (extended from 60 days), and annual report (and accompanying audited financial statements) within 5 months after the balance date (extended from 3 months).

At present, issuers with balance dates on or after 1 June (e.g. 30 June issuers) are not eligible to rely upon this relief. NZX will keep this actively under review and the relief can quickly be extended to later balance dates if necessary. For further information on the NZX relief refer to the [NZX website](#).

The New Zealand Companies Office also announced that if circumstances related to COVID-19 are affecting businesses' ability to respond to filing deadlines, they will not take any action to remove entities from the registers or take any enforcement action for non-compliance with filing during these times. For more information on the [Companies Office notice](#) refer to their website.



Need more information?

If you wish to discuss this or any other financial reporting related matter, please contact your usual PwC contact or one of the following financial reporting specialists:



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