# CORONAVIRUS CRISIS: COUNTRY RESPONSES TO THE IMPLICATIONS ON REPORTING

FACTSHEET

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As the coronavirus pandemic continues to spread, most countries in Europe and beyond are in lockdown. Many of the restrictions applied resulted in pausing most business activities.

Following our previous publication *Coronavirus crisis: implications on reporting and auditing*, and the numerous guidelines issued in different countries, we provide below a summary of the country responses[1] to the implications on company reporting as a result of the coronavirus outbreak, focusing on:

- extension of the filing deadlines
- International Accounting Standard 10 *Events After the Reporting Period* (IAS 10)
- going concern
- International Accounting Standard 36 *Impairment of Assets* (IAS 36)
- International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9)
- other governance matters

Extensive summaries sharing similar views have been published by BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC.

On a general note, the spread of the coronavirus and the country measures should be extensively disclosed in the management reports providing the entity's position on the situation. In addition, in view of International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1), entities are expected to disclose the significant judgements that management has made on estimates, and in applying the respective accounting policies, following the coronavirus outbreak and its impacts.

## EXTENSION OF THE FILING DEADLINES

On 27 March 2020, the European Securities and Markets Authority (ESMA) issued a public statement where they suggested national competent authorities (NCAs) not to undertake supervisory actions against listed entities regarding:

- annual financial reports referring to a year-end occurring on or after 31 December 2019 but before 1 April 2020 for a period of two months following the Transparency Directive (TD) deadline; and
- half-yearly financial reports referring to a reporting period ending on or after 31 December 2019 but before 1 April 2020 for a period of one month following the TD deadline.

NCAs in Austria, France, Cyprus, Greece, Luxembourg, and the Netherlands adopted the aforementioned ESMA regulation. They applied forbearance powers towards issuers who need to delay publishing the financial statements beyond the statutory deadline. At the same time, issuers should keep the respective NCA and their investors informed of the delay and comply with the requirements under the EU Market Abuse Regulation (596/2014).

Malta is also considering to adopt the recommendation of ESMA on the exercise of forbearance powers, for a period of two months.

More generously, the United Kingdom (UK), Denmark, Latvia, Poland, allow an extra 3 months for filing the annual reports for listed entities.

The new filing deadlines for listed entities in Spain will be 1 month after the end of the emergency state (i.e. after the lockdown period is over), whereas Turkey has postponed filing deadlines with 1-2 months from the original deadline.

However, Belgium, Bulgaria, Croatia, Finland, Hungary, Ireland, Italy, Portugal, have acknowledged the ESMA statement, but did not grant extensions yet.

Similarly, for the time being, the original filing deadlines remain unaltered in Czech Republic, Estonia, Germany, Lithuania, Norway, Romania, Slovakia, Slovenia, Sweden.

[1] The data in this publication has been provided by Accountancy Europe Experts Groups on accounting and corporate reporting; and by our Member Bodies through our hub *Coronavirus resources for European accountants*

## IAS 10 CONSIDERATIONS

As noted in our previous publication, all countries consider the coronavirus outbreak as a non-adjusting post-balance sheet event for companies' annual financial statements with a 31 December 2019 year-end.

Nonetheless, many countries (such as Belgium, France, Luxembourg, Portugal, Greece, Cyprus, Denmark, Norway) encouraged companies to disclose, in the notes to the financial statements or the annual report, the nature of the event, including any estimations of its financial effect, going concern and potential impact, risks and uncertainties. In this regard, FSR – Danish Auditors has provided examples of good practices disclosures of the coronavirus outbreak in the annual report, for going concern, for IAS 10 purposes, etc.

For January and February 2020 period-end reports, entities will need to assess on a case-by-case basis in which period the coronavirus outbreak will be considered as an adjusting event. This would depend on the industry the entity operates in, customers, supply chain and country of operations.

However, the effects of the coronavirus pandemic are expected to impact the balances in the financial statements of companies in all countries from March 2020 period-end reports.

For instance, the German Institute of Public Auditors (IDW) analysed the topic in its guidelines and is of the opinion that *the consequences [of the coronavirus outbreak] for the balance sheet will only be taken into account in financial statements with a cut-off date after 31 December 2019. However, the IDW notes that as of March 31, 2020, it is regularly assumed that the pandemic must be taken into account in the financial statements.*

Similarly, this Institute of Chartered Accountants in England and Wales (ICAEW) article considers the emergence of the coronavirus as a non-adjusting event for 31 December 2019 year-ends. ICAEW also notes that *companies with 2020 year-ends will need to consider the timelines more carefully to assess the conditions which existed at the relevant balance sheet date.*

The Institute of Chartered Public Accountants of Cyprus (ICPAC) also notes in its technical circular that the coronavirus outbreak would be treated as a non-adjusting event for reporting periods ending on 31 December 2019, unless the entity had direct implications due to business relationships with the Hubei Province in China during 2019.

## GOING CONCERN

A number of countries (including Italy, Czech Republic, Spain, Portugal) report that the coronavirus outbreak will result in going concern issues for companies in 2020, due to the massive pausing of business activity. Companies will need to assess if they can continue as a going concern and disclose their judgements in the notes to the financial statements. Here are some examples of what different organisations state:

- IDW notes that *whether or not preparation on the basis of the going concern premise is justifiable or no longer justifiable depends largely on the circumstances of the individual case.*
- ICAEW also assesses that in *some circumstances it may be necessary to consider whether it is appropriate to prepare the accounts on a going concern basis.*
- ICPAC notes that *management should consider all available information about the future, […] as well as actual and projected foreseeable impact from various factors such as the following: whether the entity can continue to operate if staff were not able to physically be present; the duration that the entity could survive […]; whether there has been a significant decline in revenue; whether there has been a significant erosion of profits […]; whether there is a likelihood of potential breach of debt covenants […]; […] any concerns on the continuation of receipt of goods/services from suppliers; […] insurance policies cover […].*
- In their joint FAQ, the Australian Accounting Standards Board and Auditing and Assurance Standards Board note that *management determines […] either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, [so] basis of preparation be changed from a going concern basis. Government assistance or other financial support obtained after reporting date should be taken into account when assessing the ability to continue as a going concern.*

Even though operating in a high-level uncertainty environment, management is expected to prepare different scenario forecasts (e.g. using different go-back-live dates, receiving or not government aid, etc.) and to update them accordingly until financial statements are authorised for issue.

## IAS 36 CONSIDERATIONS

All countries agree that, even though the coronavirus outbreak and related measures (e.g. lockdown) do not result in an impairment trigger for IAS 36 for company reports with a 31 December 2019 year-end, they may for reports with a 2020 period-end.

IDW outlines in that *against the background of the corona pandemic, it is to be expected that there are at least indications of impairment for the majority of the companies.*

The period in which the impairment test will be performed will depend on company specific circumstances, such as the industry or country the company operates in, or level of aid received. However, the longer the timeframe, the more probable impairment losses recognition becomes. Resultantly, companies in many are expected to recognise impairment losses in the financial statements starting from a June 2020 period-end.

On a practical note, there will be measurement uncertainty in view of IAS 36 as a result of the coronavirus and the related measures taken to limit the outbreak.

## IFRS 9 FINANCIAL INSTRUMENTS (FOR CORPORATES)

On 25 March 2020, ESMA stated that the principles-based nature of IFRS 9 includes sufficient flexibility to faithfully reflect the specific circumstances of the coronavirus outbreak and the associated public policy measures.

For 2020 period-ends or interim reports, all companies should consider the impact of the coronavirus on the expected credit losses (ECL) of trade receivables, contract assets, lease receivables, intercompany loans and any other financial assets (not measured at fair value through profit or loss) in accordance with IFRS 9 ECL requirements.

On 27 March 2020, the International Accounting Standards Board (IASB) emphasised that *although current circumstances are difficult and create high levels of uncertainty, if ECL estimates are based on reasonable and supportable information and IFRS 9 is not applied mechanistically, useful information can be provided about ECLs.* The effects of any government support on ECL measurement will need to be carefully considered when reflecting this into the likelihood of delayed payment or customer default.

Disclosures (e.g. identifying and explaining critical estimates used in the ECL calculation) are an important aspect of ECL reporting as well.

There could be other IFRS 9 related issues, including the ability to continue hedge accounting and the implications of any changes to the terms of a loan agreement which could result in a derecognition or modification gain or loss.

## OTHER GOVERNANCE MATTERS

The restrictions applied in response to the coronavirus outbreak have also impacted governance practices.

The Autorité des Marchés Financiers (AMF) in France outlines that companies are authorised to hold general meetings behind closed doors, without the presence of shareholders – and other persons having the right to attend, such as for example, the statutory auditors and representative bodies. Shareholders can exercise their voting rights by a voting form, proxy voting or a secure voting platform.

In the Netherlands, unlisted companies can also hold online general meetings and may delay the annual general meeting up to four months. On the other hand, listed companies may hold electronic annual general meetings in order to approve the financial statements of 2019.

In Austria, general meetings for all companies may be held without the physical attendance of the shareholders and the deadline for holding such assemblies has been extended from nine to twelve months.

In Cyprus, companies can hold online general meetings, or board of directors meetings, unless otherwise stated under the Articles of Association.

Chartered Accountants Ireland (CAI) notes in its article that *boards and their advisors will need to consider how the spread of coronavirus will affect the governance and operations of their business including risk, internal controls, financial reporting, audit and assurance and other regulatory and corporate reporting requirements.*

The UK Financial Reporting Council (FRC) published a guidance on holding upcoming annual general meeting (AGM), as per the following options: *adapt the basis on which the AGM is held; delay convening the AGM, if notice has not yet been issued; postpone the AGM, if permitted under the articles of association; adjourn the AGM; conduct a hybrid AGM, if permitted under the articles of association.*

The FRC also encouraged boards to *develop and implement mitigating actions and processes to ensure that they continue to operate an effective control environment […]; consider how they will secure reliable and relevant information, on a continuing basis, in order to manage their future operations […]; pay attention to capital maintenance, ensuring that sufficient reserves are available when the dividend is made, not just proposed.*

In addition, the European Central Bank (ECB) recommended credit institutions to refrain from making dividend distributions. Similarly, the European Insurance and Occupational Pensions Authority (EIOPA) urged (re)insurers to temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders.

In many countries such as in France, Italy, Norway, Luxembourg and Cyprus, companies (especially in the financial sector) are being advised not to distribute dividends. In France and Italy, for large companies, distributing dividend may interfere with receiving government aid.

## MORE RESOURCES

The communications and reports mentioned in this article are available on our hub *Coronavirus resources for European accountants* which gathers coronavirus related resources from our Member Bodies, regulators, firms and other. See also our *Coronavirus crisis resources – banks* for European professional accountants dealing with financial institutions.