Contents

Accounting and reporting considerations

1. Background........................................................................................................................................ 3
2. Going concern ..................................................................................................................................... 4
3. Financial instruments.......................................................................................................................... 6
4. Impairment assessment ...................................................................................................................... 12
5. Government grants ............................................................................................................................ 14
6. Liabilities from insurance contracts ................................................................................................ 17
7. Leases ............................................................................................................................................... 19
8. Insurance recoveries .......................................................................................................................... 23
9. Onerous contract provisions ........................................................................................................... 26
10. Fair value measurement .................................................................................................................. 27
11. Revenue recognition ........................................................................................................................ 29
12. Events after the reporting period ..................................................................................................... 31
13. Other financial statement disclosure requirements ......................................................................... 32
14. Income taxes and other accounting estimates ............................................................................... 35
15. Regulatory relaxations by SECP and SBP ..................................................................................... 38

DISCLAIMER
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It is suggested that the text of the document and relevant IFRSs, laws and notifications, where applicable, be referred to in considering the interpretation of any provision. This document is not intended to be a substitute for detailed research or the exercise of professional judgment.

Accordingly, no decision on any issue be taken without further consideration and specific professional advice should be sought before any action or decision is taken.
1. Background

The threats posed by the coronavirus outbreak are not stopping. More countries, including Pakistan, have imposed travel bans on millions of people and more people in more locations are placed with quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. The disruption to global supply chains due to factory shutdowns has already exposed the vulnerabilities of many organisations. The outbreak has also resulted in significant volatility in the financial and commodities markets worldwide. There are already signs that the virus has significantly impacted the world economy. Various governments have announced measures to provide both financial and non-financial assistance to the disrupted industry sectors and the affected business organisations.

In Pakistan the “Lockdown” decisions were implemented by the Federal and Provisional Governments in last fortnight of March 2020 which resulted in shutdown and disruptions to various industries and businesses. This situation is unprecedented for businesses in Pakistan like rest of the world, and would certainly have deep financial consequences on the liquidity, performance and financial position of various entities operating in Pakistan. In order to mitigate and respond to such circumstances, the corporate and banking regulators, the Securities and Exchange Commission of Pakistan (SECP), and the State Bank of Pakistan (SBP) have provided certain reliefs and relaxations to corporate entities, banks and financial institutions to help such entities navigate these challenging times.

This publication provides a reminder of the existing accounting requirements that should be considered when addressing the financial effects of the coronavirus outbreak in the preparation of financial statements prepared under International Financial Reporting Standards as applicable in Pakistan for the annual or interim reporting periods ending in 2020. In addition, entities must also consider the financial reporting requirements of applicable corporate laws and regulations in Pakistan. Disclosure considerations for interim financial reporting are also covered in this publication. The issues discussed are by no means exhaustive and their applicability depends on the facts and circumstances of each entity. The financial reporting issues, reminders and considerations highlighted in this publication are the following:

- Going concern
- Financial instruments
- Assets impairment
- Government grants
- Liabilities from insurance contracts
- Leases
- Insurance recoveries
- Onerous contract provisions
- Fair value measurement
- Revenue recognition
- Events after the reporting period
- Other financial statement disclosure requirements
- Income taxes and other accounting estimates
2. Going concern

IAS 1 *Presentation of Financial Statements* requires management, when preparing financial statements, to make an assessment of an entity’s ability to continue as a going concern, and whether the going concern assumption is appropriate. Furthermore, disclosures are required when the going concern basis is not used or when management is aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. Disclosure of significant judgement is also required where the assessment of the existence of a material uncertainty is a significant judgement.

In assessing whether the going concern assumption is appropriate, the standard requires that all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period, should be taken into account. This assessment needs to be performed up to the date on which the financial statements are issued. Refer to section on financial instruments for further discussion on the current vulnerability entities are facing due to concentration and liquidity risks.

As the global economy is heading towards recession and with the few exceptions, businesses in Pakistan face unprecedented disruptions to their operations, the liquidity and solvency. Therefore, future sustainability of business operations in the current shape may become a challenge for entities across wide range of industries. Considering such economic uncertainties, entities may need to revisit their business plans, financial forecasts, repayments terms of loans and financing facilities and the need for any equity augmentation to continue as a going concern. Entities, particularly those in a financial stress condition due to the COVID-19 impacts, should start preparing the revised business and financial plans as a key input to their assessment of going concern for the 2020 reporting periods.

Measurement

Management is required to assess the entity’s ability to continue as a going concern. When making that assessment, where relevant, management takes into consideration the existing and anticipated effects of the outbreak on the entity’s activities in its assessment of the appropriateness of the use of the going concern basis. For example, when an entity has a history of profitable operations and it relies on external financing resources, but because of the outbreak, its operations have been suspended before or after the reporting date, management would need to consider a wide range of factors relating to the current adverse situation including, expected impact on liquidity and profitability before it can satisfy itself that the going concern basis is appropriate. Management should consider all available information about the future, which was obtained after the reporting date, including measures taken by governments and banks to provide relief to affected entities in their assessment of going concern.
Disclosure
Given the unpredictability of the potential impact of the outbreak, there may be material uncertainties that cast significant doubt on the entity’s ability to operate under the going-concern basis. If the entity, nevertheless, prepares the financial statements under the going-concern assumption, it is required to disclose these material uncertainties in the financial statements in order to make clear to readers that the going-concern assumption used by management is subject to such material uncertainties.

How we see it
The degree of consideration required, the conclusion reached, and the required level of disclosure will depend on the facts and circumstances in each case, because not all entities will be affected in the same manner and to the same extent. Significant judgement and continual updates to the assessments up to the date of issuance of the financial statements may be required given the evolving nature of the outbreak and the uncertainties involved.
3. Financial instruments

As per the financial reporting framework applicable in Pakistan, IFRS 9 “Financial instruments” is not yet effective for banks and non-banking financial institutions. In terms of the notifications issued prior to the Covid-19 outbreak by the SBP and the SECP, the IFRS 9 will become applicable for banks and non-banking financial institutions for the accounting periods beginning on 1 January 2021 and reporting period/year ending on or after June 30, 2021 respectively.

In view of the above, the IFRS 9 requirements currently apply to entities in Pakistan which are not banks or financial institutions. The accounting framework for banks in Pakistan in respect of financial instruments is driven by the regulations and directives issued by the SBP such as for classification and valuation of investments and for the determination of loan loss provisions against non-performing loans. As regards the non-banking financial institutions, the requirements of IAS 39 must be followed other than in respect of loan loss provisions for which the requirements of SECP’s regulations apply. Insurance companies should also follow the requirements of IAS 39 as per the current reporting framework.

Based on the above the financial reporting implications in this section have been analyzed separately for entities reporting under IFRS 9 and, for banks and financial institutions reporting under specific regulatory regime.

While coronavirus continues to spread, the world is undergoing massive adjustments reacting to this outbreak. Though the outcome is unpredictable, and the conditions are still fluid and volatile, these adjustments (or measures) may or may not have a direct impact on the accounting for financial instruments. IFRS 9 Financial Instruments and IFRS 7 Financial instruments: Disclosures deal with the accounting for financial instruments and the related disclosures. Entities should exercise careful considerations for the proper accounting.

Entities reporting under IFRS 9 and IFRS 7

Current vulnerability due to concentration and liquidity risks

Entities with concentrations of risk face greater risk of loss than other entities. Paragraph 34(c) of IFRS 7 requires that concentration of risk should be disclosed if not otherwise apparent from other risk disclosures provided. Therefore, entities should consider including the following information:

- A description of how management determines concentrations of risk
- A description of the shared characteristic that identifies concentration (e.g., counterparty, geographical area, currency or market). For instance, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries and/or by industry
- The amount of the risk exposure associated with all financial instruments sharing that characteristic

Entities that have identified concentrations of activities in areas or industries affected by the outbreak (such as, e.g., the airline, hospitality and tourism industries) that have not previously disclosed the concentration because they did not believe that the entity was vulnerable to the risk of a near-term severe impact, should now reconsider making such a disclosure. Similarly, liquidity risk in the current economic environment is increased. Therefore, it is expected that the disclosures required under IFRS 7 in this area will reflect any changes in the liquidity position as a result of the coronavirus outbreak.
outbreak. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

For entities that will prepare interim financial statements under IAS 34 Interim Financial Reporting, if concentration and liquidity risks have significantly changed compared to their most recent annual financial report, they should disclose the above information in their interim financial statements.

Asset classification and business model assessment: impact of sales

A deterioration of the credit quality of the borrower or the issuer of a financial asset, as a result of the coronavirus outbreak, may result in entities deciding to dispose of investments classified as ‘hold-to-collect’ under IFRS 9. As a reminder, if the sale is due to an increase in credit risk, this would be consistent with the business model objective ‘hold to collect’, because the credit quality of financial assets is relevant to the entity’s ability to collect contractual cash flows. Selling a financial asset because it no longer meets the credit criteria specified in the entity’s documented investment policy is an example of a sale that would be consistent with the business model ‘hold to collect’.

Additionally, an increase in the frequency and value of sales in a particular period is not necessarily inconsistent with an objective to hold financial assets in order to collect contractual cash flows, if an entity can explain the reasons for those sales and demonstrate why sales in future will be lower in frequency or value. For example, if, due to a significant decrease in demand for the entity’s products or services as a result of the pandemic (e.g., airline tickets or hospitality events) the entity faces a temporary liquidity crisis, a sale of financial assets classified as held-to-collect may not be inconsistent with such business model.

A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions) is not a change in business model.

Temporary relief allowed by the SECP for equity investments classified as Fair Value Through Profit or Loss (FVTPL)

In terms of the SECP’s notification dated 2 April 2020, companies and mutual funds have been allowed temporary relief from the requirements of IFRS 9 for recognizing fair value adjustments of equity investments in the statement profit or loss. The following are the key features of the relief allowed:

- The relief is available only in respect of equity investments classified or designated under FVTPL and held as of 31 March 2020
- The gain/loss in respect of such FVTPL equity investments may be recognized directly in equity as of 31 March 2020 instead of the statement of profit or loss (however, for the purposes of dividend declarations it should be deemed as a charge to the statement of profit or loss)
- The amount recognized in equity as above should, after adjustments of subsequent fair value changes, be taken to the statement of profit or loss for the year/period ending 30 June 2020
- The entities opting for the relief are required to provide disclosures for the impact of this departure from the regular accounting treatment under IFRS 9
While it is not specifically stated in the notification, we understand that the above relief will also be available for investments in mutual funds held under FVTPL category as of 31 March 2020 by a company.

It should be noted that the regulatory relief discussed above is not available for investments classified as “Available for Sale” held by the entities which currently follow IAS 39 as their reporting framework such as insurance companies and certain non-banking finance companies. As per the requirements of IAS 39 such companies may have to consider significant or prolonged decline in the fair value of equity investments as an objective evidence of impairment and therefore, recognize such impairment in the statement of profit or loss as per regular accounting treatment under IAS 39.

**Contract modifications**

Affected entities may experience cash flow challenges as a result of disruptions in their operations, higher operating costs or lost revenues. Such entities may need to obtain additional financing, amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants. In such a case, they will need to consider the guidance provided in IFRS 9 to determine whether any changes to existing contractual arrangements represent a substantial modification or potentially a contract extinguishment, which would have accounting implications in each case.

For financial liabilities, in summary, an entity should derecognise the liability if the cash flows are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires) or if the terms of the instrument have substantially changed.

IFRS 9 provides guidance on determining if a modification of a financial liability is substantial, which includes a comparison of the cash flows before and after the modification, discounted at the original effective interest rate (EIR), commonly referred to as ‘the 10% test’. If the difference between these discounted cash flows is more than 10%, the instrument is derecognised. However, other qualitative factors could lead to derecognition irrespective of the test (e.g., if a debt is restructured to include an embedded equity instrument).

### The measurement of ECL

The measurement of ECL should be based on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money

### Expected credit loss (ECL) assessment

The occurrence of large scale business disruptions that potentially gives rise to liquidity issues for certain entities might also have consequential impacts on the credit quality of entities along the supply chain. This will also have knock on effects...
on retail portfolios (consumer and mortgage loans) as many businesses will have to reduce staff numbers resulting in a sharp increase in numbers of unemployed workers. The deterioration in credit quality of loan portfolios, but also, e.g., of trade receivables, as a result of the outbreak will have a significant impact on the ECL measurement. In responding to these challenges, certain governments and central banks have introduced, or have directed or encouraged commercial banks to introduce, various types of relief measures to corporates, small and medium-sized enterprises or mortgage borrowers.

The measurement of ECL should be based on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. Entities should exercise judgement and their best efforts to consider all reasonable and supportable information available about past events, current conditions and forecasts of future economic conditions, as described further in this publication. Given the unprecedented circumstances, it will be critical that entities provide transparent disclosure of the assumptions used to measure the ECL and provide sensitivity disclosures.

**Re-segmentation of loan portfolios or groups or receivables**

For the purpose of measuring ECLs and for determining whether significant increase in credit risk (SICR) has occurred, an entity should group financial instruments on the basis of shared credit risk characteristics and reasonable and supportable information available on a portfolio basis.

The occurrence of the coronavirus outbreak might change the risk characteristics of certain loans or receivables, because the respective borrowers or customers might engage in businesses, or locate in areas, which have become affected, or are more prone to be affected, by the outbreak. Therefore, entities should consider (re)segmenting (sub)portfolios.

**Individual and collective assessment of loans, receivables and contract assets**

Due to the abnormal circumstances, it may take time for an entity to detect actual changes in risk indicators for a specific counterparty. In order to accelerate the reflection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default (PD) on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers. For example, a supplier of products or services to the airline industry would likely consider that the PD of its customers has increased irrespective of specific events identified at the level of individual counterparties. In estimating PD and ECL, entities should consider the effect of any state aid plans to support customers through various measures (e.g. refinancing measures or other forms of financial support, including guarantees). Additionally, entities who are using multiple economic scenarios when estimating ECL should consider updating these scenarios to reflect the current change in circumstances.

**Extension of payment terms**

If payment terms are extended in light of the current economic circumstances, the terms and conditions of the extension will have to be assessed to determine their impacts on the ECL estimate as well as any other accounting impacts. For example,
if the payment terms of a receivable are extended from 90 days to 180 days, this would likely not be considered a substantial modification of the receivable. However, such extension is expected to result in an increase in PD, which would, in turn, affect the measurement of ECL. For entities which do not apply the simplified model, such extension may result in moving into stage 2, depending on the extent and detailed terms of the payment extension.

**Disclosures**

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in estimating ECL are particularly important. This is especially the case as they will have likely been materially updated compared to the key assumptions, judgements and estimates applied in the latest annual financial statements. These would include, for example, the values of the key macroeconomic inputs used in the multiple economic scenario analysis and the probability weights of these scenarios, as well as the assumptions used to determine how the different challenges for specific sectors and regions have been taken into account and the effect of any management overlays. Additionally, entities should provide disclosures to allow users of financial statements to understand the nature of any material reliefs offered to their borrowers, including those enforced by governments, and how they have assessed whether they constitute forbearance, whether they result in a substantial modification of the contract, their effect on staging and the impact on the overall ECL.

**Specific considerations for Banks, Development Financial Institutions (DFIs) and Non-Banking Financial Companies (NBFCs)**

**Classification, measurement and impairment of investments**

As noted above, the banks in Pakistan are required to follow the specific SBP regulations and directives in respect of accounting for debt and equity securities other than investments in subsidiaries and associates. In terms of such requirements, investment portfolios may be classified as “Held-for-trading”, Held-to-maturity or “Available-for-sale’ investments.

Given the sharp decline in listed equity securities prices in Pakistan observed particularly during the month of March 2020, the banks / DFIs and NBFCs are required to consider, for the investments classified as AFS, whether such decline meets the impairment test of “significant or prolonged” decline in line with the guidance of IAS 39 and if so, the impairment loss in the value of equity investments should be recognized in the statement of profit or loss (through transfer from other comprehensive income statement).

As per the financial reporting framework applicable in Pakistan, IFRS 9 “Financial instruments” is not yet applicable on banks, DFIs and non-banking financial institutions / companies.  

In this regard, SBP vide its BPRD circular 13 dated 26 March 2020, has, however, allowed the Banks and DFIs to recognize the above impairment loss in a phased manner (equally on quarterly basis) during the calendar year 2020 instead of its immediate recognition in the relevant interim reporting period. In case such relief is availed by Banks / DFIs, we understand that such treatment would be deemed a temporary relaxation from the regular accounting policies and hence adequate disclosure should be provided in the financial statements in respect of the accounting relief and its financial impacts. It should be noted that this relaxation is not applicable for NBFCs which are required to follow IAS 39 as their reporting framework.
Provision against non-performing advances and financing facilities

As per the applicable regulations, the Banks, DFIs and NBFCs are required to make provisions against non-performing advances and financing facilities using “Incurred loss” model. According to these requirements, the Banks/ DFIs and NBFCs presently classify loans as non-performing based on the Past Due status of principal and markup and make provisions using specified percentages of non-performing advances. The benefit of Forced Sale Values of eligible collaterals held against non-performing advances may be considered at the discretion of such entities, for the purposes of provisions subject to certain limits and restrictions. In addition, subjective and qualitative assessment of entire portfolio of advances is also required for the purposes of classification regardless of the past due status of the borrower.

As part of the SBP relief measures in response to COVID-19 situation, certain amendments have been made to the Prudential Regulations for Corporate and Commercial Banking vide BPRD circular 13 dated 26 March 2020. As per the amended regulations, the Banks/DFIs, upon request of the borrowers, may defer the principal amount up to one-year subject to service of markup or restructure the financing facilities beyond one year with modified terms and conditions. Such rescheduled and restructured financing facilities should continue to be classified as regular in case the rescheduling/ restructuring is completed within 180 days of repayments becoming past due. Hence, no provision should be made against such rescheduled/ restructured financing facilities. Further, trade bills should also not be classified as non-performing unless past due by 365 days instead of 180 days previously. The SECP has also provided similar relief measures for lending NBFC’s and asset management companies, in terms of advances and debt securities respectively, vide circular 9/2020 dated March 31, 2020 and circular 11/2020 dated April 09, 2020.

How we see it

The assessment of the impact of the coronavirus outbreak on ECL will require significant judgement, especially as it is not directly comparable with any recent similar events. Entities will have to update their macroeconomic scenarios and consider the use of top-down ‘management overlays’ to embed in the ECL risks not yet fully captured by their models. Given the level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used, and judgements made in estimating ECL, as well as the impact of any relief measures, is going to be critical.

Specifically, for Banks and DFIs, the relaxations in the regulations may allow such Banks and DFIs to defer immediate additional provisions that may have resulted from the deteriorating financial condition of increasing number of corporate and commercial borrowers due to COVID-19 economic consequences. However, we understand that Banks and DFIs may have to consider the credit risks associated with such rescheduled/ restructured portfolios over the life of such loans to determine whether the current rescheduling / restructuring can substantially address the liquidity and other financial sustainability issues of the borrowers for evaluation of the risk of credit provisions in the future years.
4. Impairment assessment

An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal (FVLC) and the value in use (VIU). Value in use is defined as the present value of the future cash flows expected to be derived from an asset or cash generating unit. The calculation of an asset’s value in use incorporates an estimate of expected future cash flows and expectations about possible variations of such cash flows.

IAS 36 Impairment of Assets requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity’s non-financial assets. For goodwill and intangible assets with indefinite useful lives, the standard requires an annual impairment test and when indicators of impairment exist. For other classes of assets within the scope of the standard, an entity is required to assess at each reporting date whether there are any indications of impairment. The impairment test only has to be carried out if there are such indications.

Events after the reporting period and information received after the reporting period should be considered in the impairment indicator assessment only if they provide additional evidence of conditions that existed at the end of the reporting period. Similarly, the determination of the recoverable amounts of an asset should only consider the information obtained after the reporting date if such information relates to conditions existing as of the reporting period end. Judgement of all facts and circumstances is required to make this assessment.

Existence of impairment indicators
As mentioned above, an entity is required to assess at the reporting date whether there are any indicators of impairment. With the recent developments of the outbreak, there are both external and internal sources of information, such as the fall of stock and commodity prices, decrease of market interest rates, manufacturing plant shutdowns, shop closures, reduced demand and selling prices for goods and services, etc. indicating an asset may be impaired.

Measurement
When assessing impairment, entities are required to determine the recoverable amounts of the assets. FVLC is the fair value as defined in IFRS 13 which has been explained in section 10 Fair value measurement in this publication. The estimation of the VIU involves estimating the future cash inflows and outflows that will be derived from the use of the asset and from its ultimate disposal and discounting the cash flows at an appropriate rate.

In cases where the recoverable amount is estimated based on value in use, the considerations on accounting estimates apply. The forecasted cash flows should reflect management’s best estimate at the end of the reporting period of the economic conditions that will exist over the remaining useful life of the asset. With the current uncertain situation, significant challenges are expected to prepare the forecast of or budgets for future cash flows. In these circumstances, an expected cash-flow approach based on probability-weighted scenarios may be more appropriate to reflect the current uncertainty than a single best estimate when estimating value in use.
Since the remaining useful life for many assets, such as goodwill, is long term, entities should consider not just the short-term effects, but especially the long-term effects.

**Disclosure**

The more the current environment is uncertain, the more important it is for the entity to provide detailed disclosure of the assumptions taken, the evidence they are based on and the impact of a change in the key assumptions (sensitivity analysis).

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in estimating recoverable amount will be particularly important. This is especially the case as they will have likely been materially updated compared to the key assumptions, judgements and estimates applied in the latest annual financial statements. These would include, for example, the values of the key assumptions and the probability weights of multiple scenarios when using an expected outcome approach.

**How we see it**

As the crisis evolves and the conditions are unpredictable, at this stage, management is required to exercise significant judgement to assert reasonable assumptions which reflect the conditions existing at the reporting date for impairment testing. We expect that in the current situation, majority of these assumptions are subject to significant uncertainties. As such, entities should consider providing detailed disclosures on the assumptions and sensitivities.
5. Government grants

**Requirements**

IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance* applies to the accounting for, and the disclosure of, government grants and to the disclosure of other forms of government assistance. The distinction between government grants and other forms of government assistance is important because the standard's accounting requirements only apply to the former. Government grants are transfers of resources to an entity in return for past or future compliance with certain conditions relating to the entity's operating activities. The purpose of government grants, which may be called subsidies, subventions or premiums, and other forms of government assistance is often to encourage a private sector entity to take a course of action that it would not normally have taken if the assistance had not been provided.

SIC-10 *Grants with no specific relation to operating activities* addresses the situation in some countries where government assistance is provided to entities, but without any conditions specifically relating to their operating activities, other than to operate in certain regions or industry sectors.

**Scope**

Recently many countries’ governments, agents or similar bodies have introduced (or are expected to introduce) relevant measures to assist entities in response to the coronavirus. These measures include direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low-interest loans.

In Pakistan, the SBP has recently introduced a re-finance scheme to provide working capital loans at concessional markup rates for businesses to finance the salary expense during the COVID-19 outbreak period.

Whilst the benefit of a low-interest loan would be accounted for under IFRS 9 and IAS 20, not all these measures shall be accounted for as government grants. For example, a reduction of income tax is accounted for under IAS 12 *Income Taxes*; and rental reductions or deferrals may be accounted for under IFRS 16 *Leases*. Accordingly, entities should analyse all facts and circumstances carefully to apply the relevant accounting standards.

We will focus on the accounting for government grants under IAS 20 in this section and will have more detailed analysis in other sections to discuss the accounting for those measures which are governed by accounting standards other than IAS 20.

**Recognition in the statement of financial position**

Government grants should be recognised as an asset only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. For example, when the government has decided to give out special subsidies to the affected entities, government grants can be recognised only when it is confirmed that an entity is eligible to receive the subsidy and that any conditions attaching to these subsidies are met. In cases where subsidies relating to coronavirus outbreak are given to entities without any specified conditions, an asset can be recognised at the time when it is reasonably certain that the grants will be received. Nevertheless, it is important to note that the receipt of a grant does not of itself provide...
conclusive evidence that the conditions attaching to the grant have been, or will be, fulfilled.

**Recognition in the income statement**

Government grants must be recognised in profit or loss on a systematic basis over the periods in which the entity recognised as expenses the related costs for which the grants are intended to compensate. In cases where a grant relates to expenses or losses already incurred, or for the purpose of giving immediate financial support to the entity with no future related costs expected to be incurred, the grant should be recognised in income when it becomes receivable.

Government may decide to stimulate economic activity by providing subsidies on investments by entities. If these subsidies are related to investment in assets which will be used by the entities over a longer term, the grant should be recognised in profit or loss over the useful lives of those related acquired assets.

**Measurement**

Direct cash assistance or subsidies will be measured at their fair value. However, government grants can take other forms. For example, when a government grant takes the form of a low-interest government loan, the loan should be recognised and measured in accordance with IFRS 9 (at its fair value) and the difference between this initial carrying value of the loan and the proceeds received is treated as a government grant. A forgivable loan from government, the repayment of which will be waived under certain prescribed conditions, is initially accounted for as a financial liability under IFRS 9 and would only be treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness. When government grants take the form of a transfer of non-monetary assets, such as plant and equipment, for the use of the entity, entities may apply an accounting policy choice to account for such grants at fair value of the non-monetary assets or at a nominal amount.

**Presentation**

Grants that are related to assets should be presented in the statement of financial position either by setting up the grant as deferred income, which is presented as income over the useful life of the asset; or by deducting the grant in arriving at the carrying amount of the asset, in which case, the benefit is presented in profit or loss as a reduction to depreciation.

Grants related to income should be presented either as a credit in the income statement, either separately or under a general heading such as ‘other income’, or as a deduction in reporting the related expense.
Disclosure

IAS 20 requires entities to disclose the following information:
- The accounting policy adopted for government grants, including methods of presentation adopted in the financial statements
- The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

How we see it

Whether IAS 20 should be applied depends on the facts and circumstances of the specific measures implemented by the government, including government agencies and similar bodies. Entities need to analyse all facts and circumstances carefully to determine the appropriate accounting treatment.
6. Liabilities from insurance contracts

IFRS 4 *Insurance Contracts* requires an entity issuing insurance contracts to account for its rights and obligations from the insurance contracts it issues. The current coronavirus outbreak situation could affect an entity’s liabilities for issued insurance contracts for a range of product lines. For example, entities issuing life or health products may be faced with claims caused by the impact of the outbreak on policyholders’ health status. Entities may also be affected by claims where cover is provided for events driven by the disruption caused by the outbreak, for example, business interruption insurance, event cancellation insurance, travel insurance and credit insurance. However, since coronavirus is a new disease, contractual terms may not be clear on whether policyholders can claim against the insurer. Also, entities need to consider any interpretations, directives or rulings by local authorities (e.g. government, regulator or health agency) that could impact the obligations under the contract for the entity.

**Measurement**

Entities issuing insurance contracts will therefore need to assess the impact of the coronavirus, or the disruption caused by it, on their insurance liabilities based on their specific accounting policies. This includes the effect on the liability adequacy testing of the insurance liabilities. This assessment would need to consider factors including, but not limited to, the effect on reported claims, the effect on incurred but not (enough) reported claims, the impact of these effects on the assumptions for estimating expected future claims, and the impact on the entity’s claims handling expenses. Where the entity reinsured risk from its insurance contracts, it should also consider the associated recovery through its asset from reinsurance contracts held. In determining these effects, the entity should consider not only the terms and conditions of its insurance contracts, but also the implications of any interpretations, directives or rulings by local authorities for those terms and conditions (see above). Where an entity’s accounting policies for the measurement of its insurance liabilities may also involve the use of current estimates of market variables, for example, interest rates and equity prices, the entity should reflect the impact of market developments on these variables in its measurement.

Entities should also assess whether the coronavirus gives rise to events after the reporting period and determine the implications for the financial statements. As the pandemic continues to evolve, situations and conditions are changing rapidly, entities which are going to report their interim or annual financial statements with a reporting date in early 2020 (e.g. 31 March 2020) would face significant challenges when considering the events after the reporting date. Insurers are required to perform a careful analysis of the nature and impact of these subsequent events to determine if those events and conditions are adjusting or non-adjusting in accordance with IAS 10 *Events after the Reporting Period* (see below).

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2 Reimbursement rights of policyholders, other than the situation of a reinsurance contract held by a cedant, is covered in section 8, Insurance recoveries, of this publication.
Disclosure

Entities will need to disclose the assumptions used to make their estimates, highlight the uncertainties and explain the sensitivities of the measurement of the insurance liabilities if alternative assumptions were used, explaining how these are influenced by incorporating consequential effects of the coronavirus. Other disclosure items, like insurance risk concentrations, claims developments, credit risk, market risk and capital may be affected as well.

Even though the full extent of the impact on insurance entities may not be clear and a number of uncertainties around the impact may remain, disclosure explaining these uncertainties and possible effects will be needed. Such disclosure would need to include an explanation of events that happened after the reporting date, for any events that relate to conditions that existed at the end of the reporting period as well as for any events that relate to conditions that arose after the reporting period.

How we see it

The coronavirus outbreak will affect insurance entities as they deal with the effect of events on the insurance cover they provide, ranging from coverage related to changes in health status of policyholders due to the wide spread of the disease, to coverage for events related to disruption caused by the pandemic. However, this impact is expected to be much broader than the effect on the accounting for insurance liabilities as the current situation raises various challenges for insurers. For example, entities would have to identify and monitor new risks, and determine the magnitude of their impact on the insurance business. Entities would also have to deal with the impact of the developments on financial markets on their asset liability management strategies.

Given the rapid developments and extent of measures taken to contain the effects of the coronavirus outbreak, insurance entities should anticipate uncertainty over the impact on their insurance liabilities in the coming period, and will need to monitor developments closely and determine whether these developments have an impact on the accounting for their insurance liabilities.
7. Leases

Payments received by the lessee

When payments are received by a lessee, it is necessary to evaluate whether IFRS 16 applies to such payments. In some jurisdictions, local authorities have implemented policies to provide subsidies to lessees and others in order to support the local economy and these payments are accounted for under IAS 20. Refer to section 5 for a discussion on the related accounting consideration.

When IFRS 16 applies to such payments made by a lessor, the lessee and lessor need to evaluate if there is a lease modification by considering the original terms and conditions of the lease. For example, a lessor may make a payment to a lessee of retail space in an airport when there are significant flight cancellations and such payment is not contemplated within the terms of the contract. In assessing whether the lease is modified, entities need to carefully evaluate terms of their contracts, including any force majeure clauses, which may, in specified circumstances, suspend some of their obligations or provide additional rights in the lease.

Figure 1: Assessing payments received (or receivable) by a lessee
Under IFRS 16, a lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, a lessee is required to allocate the consideration in the modified contract, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate. If the modification decreases the scope of the lease, the lessee accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognises in profit or loss any gain or loss relating to the partial or full termination. For all other modifications, the lessee makes a corresponding adjustment to the right-of-use asset.

How we see it
The modification of the lease requires the remeasurement of the lease liability using a revised discount rate. Given that the interest rate implicit in the lease is generally not readily determinable by the lessee, it is necessary for the lessee to determine a revised incremental borrowing rate. The coronavirus outbreak has exacerbated market volatility and central banks in many jurisdictions are cutting interest rates. Assessing a revised incremental borrowing rate may also require judgement in these circumstances.

Educational material by IASB

Summary
On 10 April 2020, the International Accounting Standards Board (IASB or the Board) released a document, prepared for educational purposes, highlighting requirements within IFRS 16 and other IFRS standards that are relevant for entities considering how to account for rent concessions granted as a result of the COVID-19 pandemic. The document does not change, remove, nor add to, the requirements in IFRS standards and the intention is to support the consistent and robust application of IFRS 16.

The document explains how an entity evaluates whether a rent concession constitutes a lease modification, which is defined under IFRS 16 as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. In assessing whether there has been a change in the scope of a lease or the consideration for a lease, an entity considers whether there has been a change in the right of use conveyed to the lessee by the contract and the overall effect of any change in the lease payments. If there has been a change in either the scope of, or the consideration for, the lease, an entity next considers whether that change was part of the original terms and conditions of the lease, taking into account both the terms and conditions of the contract and all relevant facts and circumstances including contract, statutory or other law or regulation applicable to lease contracts. If a change in lease payments does not result from a lease modification, that change would generally be accounted for as a variable lease payment. In this case, a lessee generally recognises the effect of the rent concession in profit or loss. A lessor recognises the effect of the rent concession in an operating lease by recognising lower income from leases.
The applicable law or regulations are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the COVID-19 pandemic) was not previously contemplated. In such a case, there is no lease modification for the purposes of IFRS 16.

Lease modifications

A lease modification is defined in IFRS 16 as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Both lessees and lessors apply the same definition of a lease modification.

A change in the scope of a lease

In assessing whether there has been a change in the scope of a lease, an entity considers whether there has been a change in the right of use conveyed to the lessee by the contract. A change in the scope of a lease includes adding or terminating the right to use one or more underlying assets or extending or shortening the contractual lease term. A rent holiday or rent reduction alone is not a change in the scope of a lease.

A change in the consideration for a lease

In assessing whether there has been a change in the consideration for a lease, an entity considers the overall effect of any change in the lease payments. For example, if a lessee does not make lease payments for a three-month period, the lease payments for periods thereafter may be increased proportionally in a way that means that the consideration for the lease is unchanged. A change that was not part of the original terms and conditions of the lease. If there has been a change in either the scope of, or the consideration for, the lease, an entity next considers whether that change was part of the original terms and conditions of the lease. As specified in paragraph 2 of IFRS 16, an entity is required to consider the terms and conditions of contracts and all relevant facts and circumstances when applying the standard. Relevant facts and circumstances may include contract, statutory or other law or regulation applicable to lease contracts.

For example, lease contracts or applicable law or regulation may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of COVID-19 pandemic) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract or in applicable law or regulation. Changes in lease payments that result from clauses in the original contract or in applicable law or regulation are part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the COVID-19 pandemic) was not previously contemplated. In such a case, there is no lease modification for the purposes of IFRS 16.

Accounting for a change in lease payments

IFRS 16 provides specific guidance for both lessors and lessees if a change in lease payments constitutes a lease modification. If a change in lease payments does not constitute a lease modification, that change would generally be accounted for as a variable lease payment. In this case, a lessee generally recognises the effect of the rent concession in profit or loss in the period in which the event or condition that triggers the rent concession occurs. A lessor recognises the effect of the rent concession in an operating lease by recognising lower income from leases.

If a change in lease payments results in the (partial) extinguishment of a lessee's obligation specified in the contract (for example, a lessee is legally released from its obligation to make specifically identified payments), the lessee would consider whether the requirements for derecognition of (part of) the lease liability are met applying paragraph 3.3.1 of IFRS 9 Financial Instruments.
Impairment of assets
Entities are required to apply IAS 36 Impairment of Assets in determining whether right-of-use assets (for lessees) and intangibles and items of property, plant and equipment subject to an operating lease (for lessors) are impaired. The circumstances that give rise to rent concessions as a result of the COVID-19 pandemic are likely to indicate that assets may be impaired. For example, loss of earnings during the period covered by a rent concession may be an indicator of impairment of the related right-of-use asset. Similarly, longer-term effects of the COVID-19 pandemic could affect the expected ongoing economic performance of right-of-use assets. Lessors will also need to consider the applicable requirements of IFRS 9, for example, when accounting for any impairment of lease receivables.

Disclosure
Entities are required to apply the disclosure requirements of IFRS 16 and other IFRS standards, such as IAS 1 Presentation of Financial Statements. For example, IFRS 16 requires both lessees and lessors to disclose information that gives a basis for users of financial statements to assess the effect that leases have on their financial position, financial performance and cash flows. The information disclosed will need to be sufficient to enable users of financial statements to understand the impact of changes in lease payments arising from the COVID-19 pandemic on the entity’s financial position and financial performance (paragraph 31 of IAS 1).

How we see it
The document provides high level guidance to both lessees and lessors on some of the practical issues related to rent concessions granted as a result of the COVID-19 pandemic. Entities will need to evaluate the accounting impact of a rent concession by carefully examining the specific terms and conditions of the lease contract as well as the applicable law and regulations.
8. Insurance recoveries

Requirements
In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount of the provision is not reduced by any expected reimbursement. Instead, the reimbursement is treated as a separate asset and the amount recognised for the reimbursement asset is not permitted to exceed the amount of the provision.

A contingent asset is defined as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. An entity does not recognise a contingent asset because this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. A contingent asset is subject to disclosure where an inflow of economic benefits is probable. An entity needs to continually assess its contingent assets to ensure that developments are appropriately reflected in the financial statements. If an inflow of economic benefits has become probable (when, previously, it was possible but not probable), an entity is required to disclose the contingent asset. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Recognition
An entity may experience a loss related to the coronavirus outbreak. For example, as a result of the shutdown of its production facilities as required by the local government, an entity continues to incur expenses for staff costs, rent and property taxes. Entities often enter into insurance policies to reduce or mitigate the risk of loss arising from business interruption or other events.

The accounting for insurance claims will differ based on a variety of factors, including the nature of the claim, the amount of proceeds (or anticipated proceeds) and the timing of the loss and corresponding insurance recovery. In addition, any accounting for insurance proceeds will be affected by the evaluation of coverage for that specific type of loss in a given situation, as well as an analysis of the ability of an insurer to satisfy a claim.

In some instances, it may be clear that the recognition threshold for the reimbursement is met when the reimbursable expense is incurred. In other instances, a careful analysis of the terms and conditions of an entity’s business interruption policies is required due to the wide variety of terms relating to the nature and level of losses covered. Some policies covering lost revenue or operating margins that typically are measured over a longer term require comparisons with similar periods in prior years. In such cases, no compensation would be available if revenue or operating margins recover during the measurement period that is set under the terms of the insurance policy. For example, a claim under a policy with a quarterly measurement period would not
be valid if a retailer were to lose an entire month’s revenue but recover that revenue before the end of the quarter.

Decisions about the recognition (and measurement) of losses are made independently of those relating to the recognition of any compensation that might be receivable. It is not appropriate to take potential proceeds into account when accounting for the losses.

IAS 37 prohibits the recognition of contingent assets. In such a situation, the recognition of the insurance recovery will only be appropriate when its realisation is virtually certain, in which case, the insurance recovery is no longer a contingent asset. ‘Virtually certain’ is not defined in IAS 37, but it is certainly a much higher hurdle than ‘probable’ and, indeed, more challenging than the term ‘significantly more likely than probable’ in Appendix A of IFRS 5 Non-current assets held for sale and discontinued operations. It is reasonable to interpret ‘virtually certain’ to be as close to 100% as to make any remaining uncertainty insignificant. In practice, this means that each case must be assessed on its own merits. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

If a previously unlikely receipt becomes probable, but it is still a contingent asset, it will only be disclosed. This assessment extends to the analysis of information available after the end of the reporting period and before the date of approval of the financial statements. In applying IAS 10, an asset is recognised only if the information about the insurance recovery, that becomes available in the subsequent period, provides evidence of conditions that existed at the end of the reporting period and its realisation was virtually certain at that time. For example, the later receipt by the entity of confirmation from the insurer that its insurance policy does cover this type of loss would provide evidence of cover as at the end of the reporting period.

**Measurement**

Once it is established that it is virtually certain that the entity will be compensated for at least some of the consequences of the coronavirus outbreak under a valid insurance policy, any uncertainty as to the amount receivable should be reflected in the measurement of the claim.

**Presentation**

‘Netting off’ is not allowed in the statement of financial position, with any insurance reimbursement asset classified separately from any provision. However, the expense relating to a provision can be shown in the income statement net of any corresponding reimbursement.

In accordance with IAS 7 Statement of Cash Flows, cash flows from operating activities are described as cash flows from the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. If the insurance proceeds are related to business interruption, the corresponding cash flows are classified as operating cash flows.

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3 According to paragraph 23 of IAS 37, an event is regarded as probable if the event is more likely than not to occur.
How we see it

The terms and conditions of an insurance policy are often complex. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

Once it is established that it is virtually certain that the entity will be compensated for at least some of the consequences of the coronavirus outbreak under a valid insurance policy, any uncertainty as to the amount receivable should be reflected in the measurement of the claim.
9. Onerous contract provisions

Requirements
An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. If an entity has a contract that is onerous, IAS 37 requires the entity to recognise and measure the present obligation under the contract as a provision. Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract. See section 4 for further details on impairment considerations.

Recognition
One significant impact of the coronavirus outbreak is the disruption to the global supply chain. For example, when a manufacturing entity has contracts to sell goods at a fixed price and, because of the shutdown of its manufacturing facilities, as required by the local government, it cannot deliver the goods itself without procuring them from a third party at a significantly higher cost, the provision for the onerous contract will reflect the lower of the penalty for terminating the contract or the present value of the net cost of fulfilling the contract (i.e., the excess of the cost to procure the goods over the consideration to be received). Contracts should be reviewed to determine if there are any special terms that may relieve an entity of its obligations (e.g., force majeure). Contracts that can be cancelled without paying compensation to the other party do not become onerous as there is no obligation.

How we see it
The modification of the lease requires the remeasurement of the lease liability using a revised discount rate. Given that the interest rate implicit in the lease is generally not readily determinable by the lessee, it is necessary for the lessee to determine a revised incremental borrowing rate. The coronavirus outbreak has exacerbated market volatility and central banks in many jurisdictions are cutting interest rates. Assessing a revised incremental borrowing rate may also require judgement in these circumstances.
10. Fair value measurement

IFRS 13 *Fair Value Measurement* specifies that fair value measurement (FVM) is a measurement date specific exit price estimate based on assumptions (including those about risks) that market participants would make under current market conditions. That is, at the measurement date, what assumptions would market participants have made using all available information, including information that may be obtained through due diligence efforts that are usual and customary. Unobservable inputs should be used to measure fair value to the extent that relevant observable inputs are not available. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant.

Following the above requirements, the objective of FVM is to convey the fair value of the asset or liability that reflects conditions as of the measurement date and not a future date. Although events and/or transactions occurring after the measurement date may provide insight into the assumptions used in estimating fair value as of the measurement date (only those that are unobservable), they are only adjusted for in FVM to the extent they provide additional evidence of conditions that existed at the measurement date and these conditions were known, or knowable, by market participants.

IFRS 13 also requires disclosure of information that helps users of financial statements assess the valuation techniques and inputs used to develop recurring fair values at the reporting date and, therefore, by implication the impact these FVMs will have on reported financial performance.

**Measurement**

Under IFRS 13, each FVM is categorised within the three levels in the FVM hierarchy based on the observability of inputs used. In Level 1 (unadjusted quoted prices in an active market for an identical asset or liability that an entity can access) and Level 2 (where all the inputs are observable for the asset or liability, either directly or indirectly, but are not in Level 1), the first quarter of 2020 has seen increasing market volatility. On the basis that these are still quoted prices in an active market or are still observable, the increase in volatility should not change the manner in which fair value is measured at the measurement date.

In Level 3 (where (an) unobservable input(s) is(are) significant to the measurement as a whole), incorporating such increase in volatility into valuation models may pose challenges to reporting entities. When making critical assessments and judgements for measuring fair value, the entity should consider what conditions, and corresponding assumptions, were known or knowable to market participants.

While volatility in the financial markets may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly. The concept of an orderly transaction is intended to distinguish a fair value measurement from the price in a distressed sale or forced liquidation. The intent is to convey the current value of the asset or liability at the measurement date, not its potential value at a future date.
The impact on FVM would depend on the evaluation of how the outbreak and any actions taken by certain governments at the reporting date would have impacted market participants’ valuation assumptions at that date. Accordingly, entities need to evaluate how this continuously changing information up to the reporting date potentially impacts related valuation inputs that were known, or knowable, by market participants by means of usual and customary due diligence performed up to that date.

The information available to the market at the reporting date may be relevant in making this evaluation. This would include any corroborative or contrary evidence, such as the timing and trajectory of observable market price movements of related assets in the relevant markets, as well as information from other than usual sources of market data up to the reporting date.

**Disclosure**

To meet the disclosure objectives of IFRS 13, entities will need to consider making related disclosures that could reasonably be expected to influence decisions that the primary users of general purpose financial statements would make on the basis of the financial statements. Depending on the facts and circumstances of each case, disclosure may be needed to enable users to understand whether or not the outbreak has been considered for the purpose of FVM. Users should understand the basis for selecting the assumptions and inputs that were used in the FVM and the related sensitivities.

Given the outbreak is evolving, entities are also reminded to consider the disclosure requirements from other standards that are relevant to FVM, such as IAS 10 *Events after the Reporting Period* on subsequent events and developments when asset values are significantly impacted subsequent to the reporting date. Furthermore, paragraph 125 of IAS 1 requires information regarding the assumptions an entity makes about the future and other sources of estimation uncertainty at the end of the reporting period, where such assumptions have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**How we see it**

The objective of fair value measurement is to convey the current value of the asset or liability that reflects conditions as of the measurement date and not a future date. Accordingly, entities should consider what information about the outbreak was known, or knowable, to market participants at the reporting date in order to measure the fair value at the measurement date.
11. Revenue recognition

The coronavirus outbreak could affect revenue estimates in ongoing customer contracts in the scope of IFRS 15 Revenue from Contracts with Customers. This is because when a contract with a customer includes variable consideration (e.g., discounts, refunds, price concessions, performance bonuses and penalties), an entity is generally required to estimate, at contract inception, the amount of consideration to which it will be entitled in exchange for transferring promised goods or services. The amount of variable consideration an entity can include in the transaction price is constrained to the amount for which it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainties related to the variability are resolved.

An entity that makes such an estimate is also required to update the estimate throughout the term of the contract to depict conditions that exist at each reporting date. This will involve updating the estimate of variable consideration (including any amounts that are constrained) to reflect an entity’s revised expectations about the amount of consideration to which it expects to be entitled, considering uncertainties that are resolved or new information about uncertainties related to the coronavirus outbreak. Estimation of variable consideration and the constraint may require entities to exercise significant judgement and make additional disclosures. For example, an entity is required to disclose information about the methods, inputs and assumptions used for estimating variable consideration and assessing whether an estimate of variable consideration is constrained. Entities should also consider the requirements to disclose the judgements and changes in judgements that significantly affect the determination of the amount and timing of revenue.

Uncertainties related to the coronavirus outbreak could also prompt entities to modify contracts with customers or reassess whether it is probable that the entity will collect the consideration to which it is entitled. If both parties to a contract agree to amend the scope or price (or both) of a contract, an entity should account for the modification under the contract modification requirements in paragraphs 18-21 of IFRS 15. Significant judgement is required to determine when an expected partial payment indicates that: (1) there is an implied price concession to be accounted for as variable consideration; (2) there is an impairment loss (see section on Individual and collective assessment of loans, receivables and contract assets); or (3) the arrangement lacks sufficient substance to be considered a contract under the standard.

In addition to the effect on ongoing contracts, entities will need to consider how the uncertainties with the coronavirus outbreak affect future contracts with customers. This could require careful consideration of, for example, collectability, price concessions and stand-alone selling prices. Entities may also need to consider how evolutions in their customary business practices affect their assessments under the revenue model. This could, for example, have an effect on an entity’s determination that a valid contract exists, its identification of performance obligations and its assessment of whether it has a right to payment for performance completed to date.

Refer EYG’s publication Applying IFRS: A closer look at IFRS 15, the revenue recognition standard, for more information.
How we see it

Entities may need to use significant judgement to determine the effect of uncertainties related to the coronavirus outbreak on its revenue accounting, e.g., estimates of variable consideration (including the constraint) and provide appropriate disclosures. Importantly, the effects are unlikely to be limited to variable consideration. Decisions made in response to the outbreak (e.g., modifying contracts, transacting with customers during collectability concerns, revising pricing) may also have an effect on the accounting and disclosures for ongoing and future contracts.
12. Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. IAS 10 makes a distinction between adjusting and non-adjusting events after the reporting period. The principal issues are how to determine which events after the reporting period are to be reflected in the financial statements as adjusting events and, for non-adjusting events, what additional disclosures to provide.

Recognition

The coronavirus outbreak occurred at a time close to the end of 2019. In late 2019, a cluster of cases displaying the symptoms of a “pneumonia of unknown cause” were identified in Wuhan, the capital of China’s Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a “Public Health Emergency of International Concern”. Since then, more cases have been diagnosed, also in other countries. Measures were taken and policies imposed by China and other countries. On 11 March 2020, the WHO announced that the coronavirus outbreak can be characterised as a pandemic.

Many governments have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain as well as demand for goods and services. At the same time, fiscal and monetary policies are being relaxed to sustain the economy. These government responses and their corresponding effects are still evolving.

For entities that are affected, or expect to be impacted by the outbreak or by the measures taken, the critical judgement and evaluation that management need to make is whether and, if so, what event in this series of events provides evidence of the condition that existed at the end of the reporting period for the entity’s activities or their assets and liabilities. When making this judgement, the entity takes into consideration all available information about the nature and the timeline of the outbreak and measures taken.

Disclosure

If management concludes that an event is a non-adjusting, but its impact is material, the entity is required to disclose the nature of the event and an estimate of its financial effect. For example, it may have to describe qualitatively and quantitively how the market volatility subsequent to year-end has affected its equity investments and governmental measures imposed on sporting and social activities and border controls have affected or may affect its operations, etc. If an estimate cannot be made, then the entity is required to disclose that fact.

How we see it

Entities need to ensure effective processes are in place to identify and disclose material events after the reporting period which could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.
13. Other financial statement disclosure requirements

In addition to the disclosure requirements discussed in the above sections, IAS 1 requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities, such as non-current assets subject to impairment, within the next financial year (with the exception of assets and liabilities measured at fair value based on recently observed market prices). The disclosures are required to be presented in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided will vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures that an entity is required to make include:

▸ The nature of the assumption or other estimation uncertainty
▸ The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
▸ The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
▸ An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved

When it is impracticable to disclose the extent of the possible effects of an assumption or other source of estimation uncertainty at the end of a reporting period, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

An entity is also required to disclose the judgements, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Disclosure (for year end reporting purposes)

The financial statement disclosure requirements for entities directly and/or indirectly affected by the outbreak will vary depending on the magnitude of the financial impact and the availability of information. Where such a decline in value is determined to be non-adjusting in accordance with the guidance described in the earlier sections, the entity does not adjust the carrying amounts, but instead, disclose such a fact and its financial effect if it can be reasonably estimated.

Because the outbreak may also result in obligations or uncertainties that an entity may not have previously recognised or disclosed, an entity also needs to consider whether to disclose additional information in the financial statements to explain the impact of the outbreak on areas that might include provisions and
The occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require material adjustments within the next financial year.

Contingent assets/liabilities, in addition to asset impairments after the reporting period as discussed above.

For entities which have their next quarterly reporting timeline close to the issuance of their annual financial statements, it is possible that quantitative financial information about the impact of the outbreak may become available by the time they issue the annual financial statements. In that case, they should consider providing such quantitative disclosures in their annual financial statements, if the effect is material.

In relation to the assumptions and estimation uncertainty associated with the measurement of various assets and liabilities in the financial statements, the occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require material adjustments within the next financial year. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgement applied in the financial statements. Such disclosure may include, for a financial statement item with a carrying amount that is more volatile in response to the outbreak, a sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation.

How we see it

Entities need to consider the magnitude of the disruptions caused by the outbreak to their businesses and adequately disclose the information about those assets and liabilities that are subject to significant estimation uncertainty, in order to provide users with a better understanding of the financial impact.

Disclosure (for interim reporting purposes)

In accordance with IAS 34, an entity is required to 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. Information disclosed in relation to those events and transactions should also update the relevant information presented in the most recent annual financial report. IAS 34 includes a number of required disclosures as well as a non-exhaustive list of events and transactions for which disclosures would be required if they are significant. For example, where significant, an entity needs to disclose changes in the business or economic circumstances that affect the fair value of the entity’s financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost. In addition, an entity is also required to disclose any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period and transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments where significant. The standard presumes a user of an entity’s interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. However, as most entities are only recently impacted by the outbreak which is rapidly evolving, they may not have included much relevant
information in their last annual financial reports and thus may need to include more comprehensive disclosure on, especially, where relevant, the topics discussed in this publication for interim financial reporting purposes.

While other standards specify disclosures required in a complete set of financial statements, if an entity's interim financial report includes only condensed financial statements as described in IAS 34, then the disclosures required by those other standards are not mandatory. However, if disclosure is considered to be necessary in the context of an interim report, those other standards provide guidance on the appropriate disclosures for many of these items. In light of these requirements and depending on the entity-specific facts and circumstances, higher-level disclosures may be sufficient in condensed interim financial statements.
Entities need to consider the impacts of legislative changes, if made, on their accounting for income taxes.

14. Income taxes and other accounting estimates

Income taxes

Requirements

A range of economic stimulus packages have been announced by governments around the world. As of today, Government of Pakistan, has not announced any package, other than the construction sector, allowing tax relief or rebates or credits for corporate entities in Pakistan.

However, in case any legislative changes are made to reduce tax rates or allow rebates / credits, entities need to consider the impacts of those legislative changes on their accounting for income taxes.

IAS 12 Income Taxes requires current tax liabilities and assets for current and prior periods to be measured at the amount expected to be paid to (or recovered from) the taxation authority, using the tax rates and laws that were enacted, or substantively enacted, by the end of the reporting period. Deferred tax assets and liabilities must be measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, also using the tax rates and laws that were enacted, or substantively enacted, by the end of the reporting period.

IFRIC 23 Uncertainty over Income Tax Treatments requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity concludes that the position is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity’s accounting for income taxes.

Substantively enacted or not

In some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment. In such circumstances, tax assets and liabilities are measured using the announced tax rate. However, this is not always the case and an entity would need to consider when the tax concessions (e.g., reduced tax rates) become substantively enacted in their jurisdiction, for example, by considering the legislative process and consensus in its jurisdiction for when a law becomes substantively enacted.

Recognition

Conditions attached to tax relief

Some governments might structure their tax relief so it applies only to entities who have been impacted by the coronavirus outbreak based on certain qualifying criteria, for example, only entities in certain sectors, or entities of a certain size (e.g., by revenue), or that have suffered a certain amount of economic impact. This may give rise to uncertainty and the need for entities to make judgements and estimates when assessing their income tax position, for example, whether for that taxation period, the entity will fall below the revenue threshold in order to receive the tax concession. Entities will need to determine whether it is probable that the taxation authority will accept their
position. If not, IFRIC 23 requires entities to assess whether to recognise any additional liability for uncertain tax positions. The same requirement applies to recognition of uncertain tax assets.

**Tax credits**

Tax relief may come in the form of tax credits. Tax credits are not defined within IFRS, and entities need to exercise judgement in determining how the receipt of a tax credit should be accounted for, as a reduction in tax liability under IAS 12, or the receipt of a government grant under IAS 20, when it is structured as a cash payment or has other indicators of a grant such as non-tax related conditions being attached to it (for example, cash spend on approved research and development related activities). A tax credit to be treated in accordance with IAS 12 will have indicators such as reducing income taxes payable (being forfeited or deferred if there are insufficient taxes payable) and having few, if any, non-tax conditions attached to it. A tax credit to be treated in accordance with IAS 20 will often be directly settled in cash in the case of insufficient taxes payable and have non-tax conditions attached. In any case, all facts and circumstances relating to the specific relief need to be considered in assessing the substance of the arrangement.

**Measurement**

**Current and deferred tax balances**

Many governments announced tax stimulus packages in early 2020. In case such packages are announced in Pakistan in the coming months, this would not generally impact the measurement of current tax balances and deferred tax balances reported prior to such enactments.

Entities with reporting periods falling in the calendar year 2020 need to consider if the tax concessions announced in early 2020 are substantively enacted prior to reporting period end. As noted earlier, entities need to consider what is generally understood as ‘substantively enacted’ in their own jurisdiction. If determined to be substantively enacted by reporting date, then current tax balances and deferred tax balances would be measured based on the tax incentives including reduced tax rates under the stimulus package.

In cases where the tax concessions are staggered over several years, such as incremental tax rate reductions, the expected timing of the reversal of deferred tax balances will also need to be assessed.

**Carry forward of tax losses**

In assessing the probability of the future realisation of carry forward tax losses, entities will need to consider whether the adverse economic conditions arising as a result of the coronavirus outbreak existed as at reporting date. If so, the entity will need to consider the deterioration of the economic outlook in its forecast of taxable profits and reversals of taxable temporary differences.
Disclosure

In addition to subsequent event disclosures, the following will also be relevant for entities impacted by the coronavirus outbreak: an explanation of changes in the applicable tax rate compared to the prior period; the amount and expiry date of any carry forward tax losses; and the nature of evidence supporting the recognition of deferred tax assets when the entity has suffered a loss in the current period. The entity should also consider disclosure of the nature of any significant judgements or estimates made when determining the appropriate accounting for the matters described above. Such judgements may include whether the tax laws were substantively enacted as of reporting date, and the determination of the accounting for income tax credits.

How we see it

Entities need to determine whether changes to tax rates and laws as part of government responses to the coronavirus outbreak, were substantively enacted as of the reporting date. The characteristics of any tax relief or rebates received by the government need to be carefully assessed in order to determine whether they should be accounted for as a reduction to the income tax expense, or the receipt of a government grant. Uncertainties relating to income taxes arising from these new government measures will require entities to consider whether they should recognise and measure current and/or deferred tax assets or liabilities at a different amount.

Other accounting estimates

Following are some of the other key accounting estimates required to be made by management under IFRS. These estimates generally include management’s assumptions about the future recoverability of an asset:

- Net realisable value of inventories under IAS 2 Inventories
- Remaining useful life and residual value of property, plant and equipment, intangible assets and right-of-use assets under IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets and IFRS 16, respectively.
15. Regulatory relaxations by SECP and SBP

Securities and Exchange Commission of Pakistan (SECP) has granted following relaxations from the requirements of the Companies Act, 2017:

- A general extension for a period of 30 days for holding of Annual General Meetings (AGMs), i.e., for the year ended on December 31, 2019, AGM can be held on or before May 29, 2020, including from laying of financial statements by listed companies.

- Non-listed companies will still have to obtain relaxation, from the concerned registrar of the Companies, from laying of financial statements. The SECP will facilitate listed companies by granting extension for filing of financial statements for first quarter, by entertaining application filed through email;

- The companies, whose election of directors is due before or in the aforesaid AGM, may file impediment reports with the concerned registrar of the Companies citing the reasons for delay in holding the election of directors;

- Any statutory return which is required to be filed on or after March 24, 2020 may be filed with the concerned registrar of the Companies with the delay of 30 days of occurrence of any event without any additional filing fee as no penal action shall be taken for the late filing; and

- The SECP will consider underlying circumstances while enforcing regulatory compliance for; (a) filing of financial statements for second and third quarter; and (b) holding of Board Directors meetings by public companies in each quarter.

The SECP has also encouraged the Companies to hold their AGMs remotely, through video conference or other methods, pass resolutions by directors through circularization and use technology and related applications to enable their employees to work from home.

Similarly, the SBP has also relaxed regulatory deadlines for Banks, DFIs and other Institutions under its jurisdiction, in following manner:

Extension till May 31, 2020 for filing of;

I. annual and Q1 financial statements
II. management letter from the external auditors,
III. long form report by the External Auditors/ Assessment Report on efficacy of Internal Controls Over Financial Reporting by Board Audit Committee;
IV. Shariah Audit Report; and
V. annual audited Capital Adequacy Ratio (CAR) returns along with External Auditor’s certificate for year ended December 31, 2019.

Extension till April 30, 2020 for filling of;

I. quarterly data submission for the quarter ended March 31, 2020 under Reporting Chart of Accounts;
II. data for stress testing for March 31, 2020; and
III. other reporting for periods ending March 31, 2020.
Extension in timelines on tasks relating to implementation of International Financial Reporting Standard (IFRS) 9:

<table>
<thead>
<tr>
<th>Tasks</th>
<th>Revised Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 9 compatible proforma financial statements Y/E December 31, 2019</td>
<td>August 31, 2020</td>
</tr>
<tr>
<td>Parallel run of IFRS 9</td>
<td>Period beginning July 1, 2020</td>
</tr>
</tbody>
</table>
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A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting to the key business decisions you make. We have developed extensive global resources – people and knowledge – to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

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For more information please contact:

Riaz A. Rehman
Partner and Country Leader Assurance
Riaz.rehman@pk.ey.com

Arslan Khalid
Partner and Financial Accounting Advisory Services (FAAS) Country Leader
Arslan.khalid@pk.ey.com

Ahsan Shahzad
Partner, Audit and Financial Accounting Advisory Services (FAAS)
Ahsan.shahzad@pk.ey.com

Arif Nazeeer
Partner, Assurance
Arif.nazeer@pk.ey.com