



Project:	COVID-19	Meeting:	M175
Topic:	Response to financial reporting issues of COVID-19	Agenda Item:	5.1
		Date:	15 April 2020
Contact(s):	James Barden jbarden@asb.gov.au Helena Simkova hsimkova@asb.gov.au	Project Priority:	High
		Decision-Making:	Medium
		Project Status:	Update on staff response

OBJECTIVE OF THIS PAPER

- 1 The objective of this agenda item is:
 - (a) to **inform** the Board of the financial reporting issues raised to Staff relating to COVID-19; and
 - (b) for the Board to **decide** whether to release staff FAQs on the following topics:
 - (i) Going concern assessments, disclosures and the liquidation basis of accounting;
 - (ii) Accounting for and disclosing government grants; and
 - (iii) Fair value measurements and impairment testing.

ATTACHMENTS

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| Agenda Paper 5.2 | IASB Educational Material – Applying IFRS 9
[SUPPORTING DOCUMENTS FOLDER] |
| Agenda Paper 5.3 | IASB Educational Material – Applying IFRS 16
[SUPPORTING DOCUMENTS FOLDER] |
| Agenda Paper 5.4 | IASB Staff Paper: Accounting for covid-19-related rent concessions
[SUPPORTING DOCUMENTS FOLDER] |

STRUCTURE

- 2 This Staff Paper is set out as follows:
 - (a) Background;
 - (b) Purpose of this paper
 - (c) Working with other standard-setters and regulators
 - (d) Effect on the AASB's work program
 - (e) Next Steps
 - (f) Questions to the Board
 - (g) Summary of Key Issues Identified

BACKGROUND

- 3 Staff sought feedback on whether any financial reporting issues are being identified as a result of COVID-19. This includes an email from Staff to Board members and professional services in April 2020 requesting any feedback on issues identified.
- 4 Staff consider it is appropriate for the Board to respond to such issues to promote its vision of contribution to stakeholder confidence in the Australian economy, as well as in line with its 6th and 7th strategies, which are to:
 - (a) Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.
 - (b) Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards and guidance, including changing technologies.
- 5 The Board has already issued the joint [AASB-AUASB FAQ](#) *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations*. The FAQ has been well received domestically and internationally for example by IFAC and the IAASB.
- 6 Staff have also created a webpage to house useful resource related to COVID-19 and financial reporting – see <https://www.aasb.gov.au/Hot-Topics/COVID-19-Guidance.aspx>. Key publications and guidance from other regulators on that page that the Board should be aware of include:
 - (a) IASB: [Application of IFRS 9 in the light of the coronavirus uncertainty](#)
 - (b) IASB: [Application of IFRS 16 in the light of the covid-19 uncertainty](#)
 - (c) ASIC: [Guidelines for meeting upcoming AGM and financial reporting requirements](#)
 - (d) ASIC: [ASIC to provide additional time for unlisted entity financial reports](#)
 - (e) ACNC: [Charity operations and COVID-19](#)
 - (f) The Treasury: [Temporary relief for financially distressed businesses](#)

IASB STANDARD-SETTING ACTIVITY

- 7 Shortly before finalising this paper, the IASB staff posted an IASB Board Paper recommending the IASB amend IFRS 16 *Leases* to provide a practical expedient from assessing whether COVID-19-related rent concessions are lease modifications, and instead treat them as if they are not. This would provide relief from the modification requirements, which includes re-calculating the lease liability using a revised discount rate. The [IASB staff paper](#) is available in the support documents folder.
- 8 The IASB will discuss that issue at a supplementary IASB meeting on Friday 17 April (ie before the AASB meeting). As such, staff will provide a verbal update on the outcomes and provide verbal recommendations for next steps. Staff have not analysed the IASB staff view or provided recommendations in relation to it due to timing constraints.
- 9 The IASB will also consider the [effect on project timelines](#) at its supplementary meeting, which staff will provide a verbal update on. IASB staff have recommended to delay non-critical projects and consultation periods by, on average, 3 months. IASB staff have [also proposed to defer the application date](#) of the recent Standard *Classification of Liabilities as Current or Non-Current* (AASB 2020-1), which would result in standard-setting activity. Staff will provide a verbal update and recommendations on the IASB's decisions.

PURPOSE OF THIS PAPER

- 10 The primary purpose of this paper is to provide the Board with a log of the issues raised and staff recommendations on how the Board should address the issues. See [Summary of Key Issues Identified](#) below.
- 11 Given the time-sensitive nature of responding to COVID-19, staff have already started working based on its recommendations (which are primarily to provide some additional FAQs) and will continue to do so between mailout and this meeting. Staff will provide a verbal update on progress at the meeting.

WORKING WITH OTHER STANDARD-SETTERS AND REGULATORS

- 12 The FRC has set up a working group of key regulators (FRC, AASB, AUASB, ASIC, APRA) which convenes regularly to discuss united responses to issues.
- 13 At the Staff level, AASB and AUASB are also working closely to identify issues which makes sense to address as another joint publication.
- 14 Staff are also staying in contact with IASB staff to understand the IASB's plan to respond, as well as other national standard setters via IFASS and the AOSSG.

EFFECT ON THE AASB'S WORK PROGRAM

- 15 This paper does not address the impact on the Board's work program or project delivery. Those issues will be addressed in specific agenda items related to relevant projects, as well as in the Board's usual discussion on priorities.

NEXT STEPS

- 16 In accordance with the Board's Due Process Framework, assuming the Board agrees to publish further FAQs, Staff will have those FAQs reviewed by the Chair and at least one other Board member.
- 17 Staff will also share the FAQs with the IASB and other regulators as necessary to ensure that the views expressed are consistent with the views of other key parties.

QUESTIONS TO THE BOARD

Question No.	Overview of staff recommendation	Question to the Board
Question 1 Effective dates of standards	Staff do not recommend any effective dates are deferred.	Does the Board agree?
Question 2 Going concern	Staff recommend issuing an FAQ on going concern, including: <ul style="list-style-type: none">• Factors to consider in making going concern disclosures• Required disclosures with respect to material uncertainties and significant judgements relating to uncertainties about the future.	Does the Board agree?
Question 3 Liquidation basis of accounting	Staff recommend to include in the going concern FAQ some advice on what an entity might consider in revising its basis of preparation. However, a separate FAQ is not to be prepared at this stage.	Does the Board agree?

<p><u>Question 4</u> Disclosure of material information</p>	<p>Materiality is already the key focus of other FAQs. Therefore, Staff recommend including linkage to materiality requirements as part of FAQs being developed on other topics when relevant.</p>	<p>Does the Board agree?</p>
<p><u>Question 5</u> Current vs non-current classification of liabilities</p>	<p>For classification of liabilities as current or non-current, Staff recommend no action as existing guidance considered sufficient.</p>	<p>Does the Board agree?</p>
<p><u>Question 6</u> Accounting for government grants</p>	<p>For government grants, Staff recommend issuing an FAQ outlining:</p> <ul style="list-style-type: none"> • which standard would apply; • if within the scope of AASB 120, the accounting requirements; and • required disclosures about government assistance. 	<p>Does the Board agree?</p>
<p><u>Question 7</u> Leases</p>	<p>Considering there is already IASB guidance in place on leases in the context of COVID-19, Staff recommend not to issue any additional guidance on leases.</p>	<p>Does the Board agree?</p>
<p><u>Question 8</u> Fair value and impairment</p>	<p>Staff recommend issuing an FAQ reminding entities of some limited estimation requirements and focussing more on required disclosures where uncertainties exist.</p>	<p>Does the Board agree?</p>
<p><u>Question 9</u> Control in public sector</p>	<p>With respect to control in the public sector, Staff recommend no action.</p>	<p>Does the Board agree?</p>
<p><u>Question 10</u> Unexpended stimulus</p>	<p>With respect of whether unexpended stimulus is a provision or commitment, Staff recommend no action.</p>	<p>Does the Board agree?</p>
<p><u>Question 11</u> Intergenerational effects of stimulus</p>	<p>Staff recommend no action, except to consider as part of the future management commentary/service performance reporting project.</p>	<p>Does the Board agree?</p>
<p><u>Question 12</u> Abandoning plans to sell assets</p>	<p>With respect to a change in a plan to sell non-current assets, Staff recommend no action.</p>	<p>Does the Board agree?</p>
<p><u>Question 13</u></p>	<p>N/A</p>	<p>Does the Board have any other comments or issues that they consider staff should address?</p>

SUMMARY OF KEY ISSUES IDENTIFIED

Issue	Why it should or shouldn't be addressed?	Staff recommendation
<p>Effective date of AASB 16 <i>Leases</i> – FP and NFP</p> <p>Effective date of AASB 1058 and AASB 15 – NFP</p>		
<p><u>Should effective dates for upcoming standards be deferred</u></p> <p>Some Board members and comments by one stakeholder via email and one stakeholder on social media have suggested whether to consider deferring effective dates of major standards that became effective for periods beginning on or after 1 January 2019, to provide relief to preparers.</p>	<p>The standards considered are mainly</p> <ul style="list-style-type: none"> • AASB 15 <i>Revenue from Contracts with Customers</i> for NFP entities; • AASB 1058 <i>Income of Not-for-Profit Entities</i>; and • AASB 16 <i>Leases</i> for all entities <p>which have the effective date of 1 January 2019.</p> <p>Considering the end of the first reporting period is relatively close, staff expect that the progress toward adoption should already be complete or significantly progressed as standards have been on issue for more than 3 years in all cases.</p> <p>31 December year-end reporters already transitioned (and those preparing interim FS). Likely to cause more disruption than assistance as it could lead to variety of standards being used for reporting purposes.</p> <p>Anecdotal feedback from one Board member suggests that this is not a preferred option by many stakeholders (as noted in previous column, only limited feedback received suggesting deferral).</p>	<p>Staff do not recommend any effective dates are deferred.</p> <p>In respect of NFP entities, Staff noted that some of them can continue to prepare SPFS until 30 the NFP financial reporting framework is finalised (ie until at least 30 June 2021).</p> <p>Question 1: Does the Board agree with Staff recommendation?</p>

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	<p>Both ASIC and ACNC have also provided relief for 31 December and 31 March year ends from reporting deadlines, and is considering any further relief. See ASIC website and ACNC website.</p> <p>Additional reasons not to delay for for-profit entities</p> <p>Publicly accountable entities should maintain IFRS compliance (see AASB Strategy No.1) except in extreme circumstances in accordance with the Standard-Setting Framework. There was no indication from IASB that they would defer the effective date of IFRS 16 <i>Leases</i>.</p> <p>Furthermore, there is only approximately 16% of non-publicly accountable entities are lodging GPFS-RDR with ASIC (based on Research Report No.12). For the others, SPFS has been removed for certain remaining FP entities, but this is not effective until years ending 30 June 2022.</p>	
AASB 101 Presentation of Financial Statements		
<p><u>Going concern</u></p> <p>Assessment of going concern and related disclosures involving high level of uncertainty have been raised in forums by auditors and by some other regulators.</p>	<p>AASB 101 has very limited guidance about how to perform a going concern assessment and related disclosures. It only requires an entity to cease preparing financial statements where the entity intends to liquidate, cease trading or has no practical ability but to do so.</p>	<p>Staff recommend issuing an FAQ on going concern, including:</p> <ul style="list-style-type: none"> • Factors to consider in making going concern disclosures • Required disclosures with respect to material uncertainties and significant

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<p>The AUASB has also received significant feedback from their stakeholders.</p> <p>Key concerns identified include:</p> <ul style="list-style-type: none"> • How should business hibernations be addressed? In particular, if the entity is required to cease trading for a certain period of time, is it automatically no longer a going concern? • Disclosure requirements of AASB 101 not specified in any detail for where there are material uncertainties of an entity's ability to continue as a going concern 	<p>Going concern assessment will be widespread as the current circumstances may challenge the going concern basis of preparation of many entities, that may have never had material going concern uncertainties in the past.</p> <p>However, the current situation makes the assessment difficult due to uncertainties about the impact of the pandemic, extent and duration of restrictive measures.</p>	<p>judgements relating to uncertainties about the future.</p> <p>Currently being drafted by staff. This will be a joint project with AUASB and will include guidance and consideration for auditors.</p> <p>Question 2: Does the Board agree with the staff recommendation?</p>
<p><u>Liquidation basis of accounting</u></p> <p>Concern raised in forums by professional bodies and auditors that there is no guidance on what the basis of accounting should be where the entity is no longer a going concern (ie – what is liquidation basis)?</p>	<p>AASB 101 paragraph 26 states that an entity should revise its basis of preparation but provides no further guidance as to how to go about that.</p> <p>It is expected many entities may no longer be a going concern.</p> <p>On the other hand, no longer being a going concern is not a new issue, so it may be argued that the AASB should not provide guidance. However, staff reject that view on the basis that the lack of guidance is a common issue in practice, and the issue may be more prevalent now.</p>	<p>Staff recommend to include in the going concern FAQ some advice on what an entity might consider in revising its basis of preparation. However, a separate FAQ is not to be prepared at this stage.</p> <p>Staff will monitor whether this issue becomes more widespread, and if so consider whether it is a matter for the IFRS Interpretations Committee or whether further guidance should be issued domestically.</p> <p>Question 3: Does the Board agree with Staff recommendation?.</p>
<p><u>Disclosure of material information</u></p> <p>A question was raised by an auditor whether assistance from government would have to be</p>	<p>It is important that users are being provided all the information they need for decision making. Some entities may prefer not to disclose all relevant material information if it is not</p>	<p>Staff recommend including linkage to materiality requirements mentioned in the previous column as part of FAQs being developed on other topics when relevant.</p>

Issue	Why it should or shouldn't be addressed?	Staff recommendation
disclosed, for example bailouts or purchasing of equity.	<p>specifically required by an accounting standard.</p> <p>However, if material information isn't covered by disclosure requirements of another standard (e.g. if it falls out of scope of the government grants standards), entities should be reminded of AASB 101 paragraph 31 which requires additional disclosure if individual standards do not require all material information, and AASB 101 paragraph 97-98 require separate disclosure of individually material items.</p> <p>Therefore, staff suggest reminding entities of these requirements to promote good disclosure.</p>	<p>Materiality is already the key focus of other FAQs.</p> <p>Question 4: Does the Board agree with Staff recommendation?</p>
<p><u>Current vs non-current classification of liabilities</u></p> <p>One auditor noted that there may be challenges determining whether liabilities are current or non-current.</p>	<p>Staff have not received any other feedback indicating that this may be an issues.</p> <p>Staff don't consider the existing guidance in AASB 101 to be unclear in this regard. Entities could also consider early adopting AASB 2020-1 if it provides clarity on the classification</p>	<p>Staff recommend no action.</p> <p>Question 5: Does the Board agree with Staff recommendation?</p>
<p>AASB 120 Accounting for Government Grants and Disclosure of Government Assistance (For-profit entities)</p> <p>AASB 1058 Income of Not-for-Profit Entities, AASB 15 Revenue from Contracts with Customers (Not-for-Profit Entities)</p>		
<p><u>Accounting for government grants</u></p> <p>Staff have received feedback from some Board Members and in forums (accounting firms and professional bodies) that providing guidance on the</p>	<p>It is likely that many entities would be receiving government assistance as a result of COVID-19 for the first time in their existence. The accounting of AASB 120 is not familiar to many entities and the Standard is not up to</p>	<p>Staff recommend issuing an FAQ outlining:</p> <ul style="list-style-type: none"> • Which standard would apply; • If within the scope of AASB 120, the accounting requirements; and

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<p>accounting for government grants would be useful given the various government stimulus packages currently being enacted.</p>	<p>date with many of the concepts of the current Conceptual Framework (eg, performance obligations).</p> <p>Further, there are significant differences in the accounting treatment of government grants between for-profit and NFP entities. Staff consider it would be useful to highlight those differences and provide additional guidance to assess the substance of the transaction.</p> <p>Staff consider that the guidance on government grants could be helpful to a wide range of entities.</p>	<ul style="list-style-type: none"> required disclosures about government assistance. <p>Staff do not recommend providing much guidance on the application of AASB 1058/AASB 15 on the basis that there is a lot of other guidance available and entities would be familiar with the requirements given they are currently adopting it.</p> <p>Question 6: Does the Board agree with Staff recommendation?</p>
<p>AASB 16 Leases</p>		
<p><u>Accounting for rent relief</u></p> <p>Accounting firms, auditors and Board members have raised questions as to how rent relief arrangements would be treated under AASB 16. In particular, there are questions whether the arrangements would be treated as a modification (requiring re-measurements) or not.</p>	<p>Addressed by IASB – should only be monitored for now.</p> <p>Information on how rent relief arrangement will be negotiated is still coming to light, hence it may not be practical to produce helpful guidance at this stage. Staff understand that the arrangements may also be very complex, hence it may be difficult to produce useful guidance which applies to all.</p> <p>The IASB has already provided educational material and is also considering whether to perform standard-setting activity to provide relief.</p>	<p>Staff recommend no action from the AASB (apart from supporting the IASB's due process), in light of the IASB addressing the issues raised on AASB 16.</p> <p>Staff will provide a verbal update on the status of the IASB's work on IFRS 16 at the meeting and recommend how the Board should respond.</p> <p>Question 7: Does the Board agree with Staff recommendation?</p>

Issue	Why it should or shouldn't be addressed?	Staff recommendation
<p>AASB 136 <i>Impairment of Assets</i></p> <p>AASB 13 <i>Fair Value Measurement</i></p>		
<p><u>Fair value measurements and impairment testing</u></p> <p>Some Board members and accounting firms have raised questions as to whether there would be too much uncertainty and volatility to perform accurate estimations.</p>	<p>Staff do not consider it feasible to provide a great range of additional guidance on how to perform valuations where uncertainty is inherent as</p> <ul style="list-style-type: none"> • this is not uncommon situation, and • the estimations are entity specific. <p>However, Staff consider it would be helpful to provide guidance focussed on disclosing information on material uncertainties and assumptions in order to support entities that might find hard to do these estimates.</p>	<p>Staff recommend issuing an FAQ reminding entities of some limited estimation requirements, and focussing more on required disclosures where uncertainties exist.</p> <p>Question 8: Does the Board agree with Staff recommendation?</p>
<p>AASB 10 <i>Consolidated Financial Statements</i></p>		
<p><u>Control in public sector</u></p> <p>One Board member noted there could be issues assessing control if the government acquires equity interests in the private sector.</p>	<p>At this stage, this issue does not appear to have occurred/would not be widespread.</p>	<p>Staff recommend no action.</p> <p>Question 9: Does the Board agree with Staff recommendation?</p>
<p>AASB 137 <i>Provisions</i></p>		
<p><u>Public sector – unexpended stimulus</u></p>	<p>Staff consider that this is not an issue specific to COVID-19, as policy changes are commonplace. Further, AASB 137 paragraphs</p>	<p>Staff recommend no action.</p>

Issue	Why it should or shouldn't be addressed?	Staff recommendation
<p>Public sector preparers have noted that governments are making short-term policy and legislative changes that substantially expand and change their operations. For example, purchasing additional health equipment, ICU training, business guarantees, financial support for employees etc.</p> <p>It was questioned whether unexpended stimulus arrangements at 30 June constitute a liability or just a commitment (AASB 137).</p>	<p>Aus26.1-Aus26.2 already provide guidance on accounting for published policies, statements of intent etc.</p>	<p>Question 10: Does the Board agree with Staff recommendation?</p>
<p><u>Public sector – onerous contracts</u></p> <p>Public sector preparers provided feedback that contracts in the public sector often relate to meeting policy objectives, for example the acquisition of public service potential. Clarification of the application of the onerous contract provisions to public sector and not-for-profits would be useful.</p>	<p>Staff need to discuss and understand the specific issue further with the respondent before making a recommendation for the Board.</p>	<p>Staff will provide a verbal update/recommendation at the Board meeting.</p>
<p><u>Public sector – intergenerational effects of stimulus</u></p> <p>One auditor questioned whether the intergenerational effects of borrowing and recovering monies spent in the various stimuli would be required to be disclosed in the public interest</p>	<p>Staff consider that this type of forward-looking information is outside the scope of the current AASB standards and hence action would be complex and not timely.</p> <p>Staff have noted this for consideration as part of the Management Commentary/Service Performance Reporting project.</p>	<p>Staff recommend no action, except to consider as part of the future management commentary/service performance reporting project.</p> <p>Question 11: Does the Board agree with Staff recommendation?</p>
<p><i>AASB 5 Non-Current Assets Held for Sale and Discontinued Operations</i></p>		
<p><u>Abandoning plans to sell assets</u></p>	<p>Staff consider this scenario would be limited, and if an entity does, or is forced, to change a plan to sell a non-current asset, staff consider</p>	<p>Staff recommend no action.</p>

Issue	Why it should or shouldn't be addressed?	Staff recommendation
One auditor questioned where businesses have been forced to close or can no longer proceed with planned sales of assets or businesses to foreign entities because of government directives, should this situation and the impact be disclosed and how would that be audited?	AASB 5 paragraph 42 adequately addresses this situation.	Question 12: Does the Board agree with Staff recommendation?