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| **TECHNICAL CIRCULAR:** | **3/2021 [TC 3_2021]** |
| **To:** | **ALL MEMBERS OF THE INSTITUTE** |
| **From:** | **Accounting Standards Committee & Auditing Standards Committee** |
| **Date:** | **10 February 2021** |
| **Subject:** | **Implications of the coronavirus outbreak on financial reporting and auditors' work tailored to Cyprus reality for year ended 31 December 2020** |

On the basis of the current unprecedented situation around the globe and the spread of the coronavirus disease 2019 (COVID-19) pandemic, the Institute of Certified Public Accountants of Cyprus (ICPAC) wishes to provide guidance on its effect on the financial statements for reporting periods ended on 31 December 2020 and the impact on the auditors' work thereon.

This circular builds on the guidance provided in the Technical Circular (TC) 2/20 Implications of coronavirus outbreak on financial reporting and auditor's work tailored to Cyprus reality and should be read in conjunction with TC 2/2020.

## Financial reporting considerations

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## Illustrative disclosures (Available in Greek and English language)

- Appendix 1 Illustrative disclosure for the events after the reporting date note for the year ended 31 December 2020
- Appendix 2 Illustrative disclosure for the operating environment of a company in Cyprus for the year ended 31 December 2020

Entities are reminded to include the necessary disclosures, both qualitative and quantitative, regarding events after the reporting date, the operating environment of the entity and the going concern in their financial statements.

It is emphasized that:

- each entity should tailor the disclosures to its specific circumstances and update the disclosures accordingly based on events and conditions that are relevant at the time of issuing the financial statements.
- the illustrative disclosures are by no means exhaustive and their applicability depends on the facts and circumstances of each entity.
- the financial reporting and audit considerations are not limited to the ones described in the circulars. There may be other considerations that entities may need to take into account as the impact of the COVID-19 outbreak on entities will differ.
- all professional accountants in public practice will need to exercise professional skepticism and professional judgement considering the unique circumstances and challenges as a result of the COVID-19 outbreak.

ICPAC continues to monitor developments regarding these financial reporting and auditing considerations and will provide revised or additional guidance to members if necessary.

# Financial reporting considerations

## 1. Events after the reporting date

Events after the reporting date 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. Such events are subject to the provisions of IAS 10 “Events after the Reporting Period”.

For reporting periods ending on or before 31 December 2019, it was generally appropriate to regard the effects of the COVID-19 outbreak as consequence of events that arose after the reporting date (e.g., declaration of the COVID-19 as a pandemic, measures taken by the government to contain the COVID-19 outbreak). The COVID-19 outbreak was therefore treated as a non-adjusting event.

It is evident that for year ended 31 December 2020, the COVID-19 pandemic is an event that existed in the reporting period and therefore, the impact of the COVID-19 outbreak should now be factored in the recognition and measurement of assets and liabilities in the financial statements. However, given the economic environment and the likelihood that events may occur rapidly or unexpectedly, all entities will remain subject to some uncertainty for the foreseeable future. Entities should carefully evaluate information that becomes available after 31 December 2020 but before the date of authorisation of the financial statements.

While generally events after the reporting date can be company-specific and associated with a specific account that permits a more precise analysis, events resulting from COVID-19 are macroeconomic in nature and have a pervasive impact on many estimates in a set of financial statements which may make it difficult to ascertain whether such conditions “existed” at the reporting date.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is developing. However, COVID-19 should be factored-in by an entity when making estimates in the preparation of its financial statements, for example, when estimating the expected credit loss on receivables, inventory obsolescence, and impairment analyses. Even though the economic environment is volatile, entities will be required to consider conditions as they existed at the reporting date when evaluating subsequent events.

## 1. Events after the reporting date (continued)

Judgement may need to be exercised when assessing whether an event after the balance sheet date relating to COVID-19 should be considered to be non-adjusting or adjusting. This will be highly dependent on the specific circumstances of the entity's operations and the particular events under consideration. If events are non-adjusting and their impact is material, the entity is required to disclose the nature of the event and an estimate of its financial effect in its financial statements. If such an estimate cannot be made, then the entity is required to disclose that fact [IAS 10:21].

Furthermore, events after the reporting date should be considered by an entity when assessing whether the going concern assumption is appropriate and whether material uncertainties exist (see Section 2 "Going concern implications").

Please refer to Appendix 1 for the illustrative disclosure for the *Events after the reporting date note* for the year ended 31 December 2020.

## 2. Going concern implications

The going concern assessment is an area of judgement. Given the COVID-19 pandemic and the resulting economic conditions, the level of uncertainty around this judgement increases.

Preparers are reminded that they need to consider all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period [IAS1:26].

Disclosures are required if:

- either the financial statements are not prepared on a going concern basis or
- management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern such as reduced market demand for products or services, disruption to supply chains, overreliance on temporary public support measures, restricted access to financial resources etc [IAS1:25].

Even if management has determined that the COVID-19 pandemic has not created a material uncertainty that casts doubt on the entity's ability to continue as a going concern, it is expected that entities which have made significant judgments in reaching the conclusion provide disclosures on any such judgments ([IAS 1:122] and IFRS Interpretations Committee's July 2014 Agenda Decision).

## 2. Going concern implications (continued)

Factors that an entity might assess and disclose to address its going concern basis include:

- Whether the entity has sufficient cash and/or headroom in its credit facilities to survive a downturn whilst noting that the evolving nature of the COVID-19 pandemic means that uncertainties will remain, and it may not be able to reasonably estimate the future impact of COVID-19.
- The results of running stress testing on assumptions that are most sensitive and could adversely affect operations and the likelihood of such adverse scenarios.
- Impact on loan covenants.
- Actions the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity.
- Consideration of the entity's business model and related risks.
- Any challenges on the underlying data and assumptions used to make the going concern assessment.
- Description of the plans and measures taken or that will be taken if any.

Management, in its assessment of going concern, should consider all available information about the future, including measures taken by governments and banks to provide relief to affected entities. Members are also reminded that, in making their going concern assessment, IAS 10 requires an entity to consider events up to the date of authorisation of the financial statements [IAS 10:16] and refers to IAS 1 for the required disclosures.

It is important that preparers provide adequate disclosures in the financial statements about the assumptions made concerning the future, and other 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 within the next financial year [IAS 1:125]. Given the unpredictability of the potential impact of the pandemic, there may be material uncertainties that cast significant doubt on the entity's ability to operate under the going-concern basis. Therefore, an entity 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.

The forecasts used for going concern purposes should also consider any potential impact on:

- impairment of property,
- plant and equipment,
- intangibles,

## 2. Going concern implications (continued)

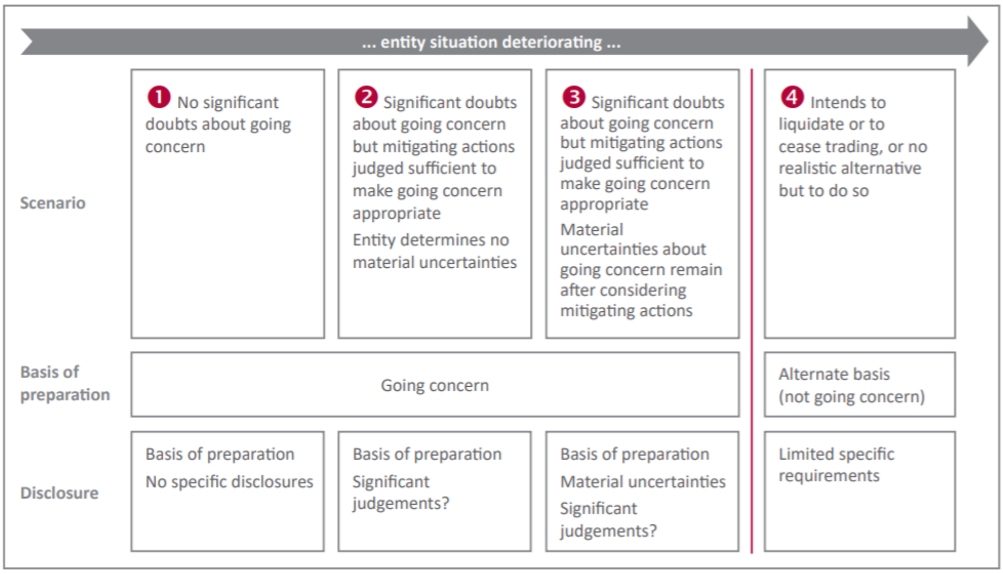
- revenue recognition,
- deferred taxes,
- valuations,
- expected credit losses,
- inventory obsolescence.

Assumptions used in determining whether the company is a going concern should be compatible with assumptions used in other areas of the financial statements.

The IFRS Foundation has published educational material to support companies in applying going concern requirements. A useful diagram can be found below:

Applying the requirements in IAS 1

The requirements in IAS 1 can be depicted as set out in the diagram below:




## 3. Operating environment of an entity

It is expected that entities will include information on the impact of the COVID-19 pandemic in their *Operating environment note.*

An illustration of the disclosures for the operating environment of an entity in Cyprus as a result of the COVID-19 outbreak is provided in Appendix 2 (available in Greek and English language). This illustration can be considered in preparing the necessary disclosures in the financial statements.

## 4. Impairment of non-financial assets

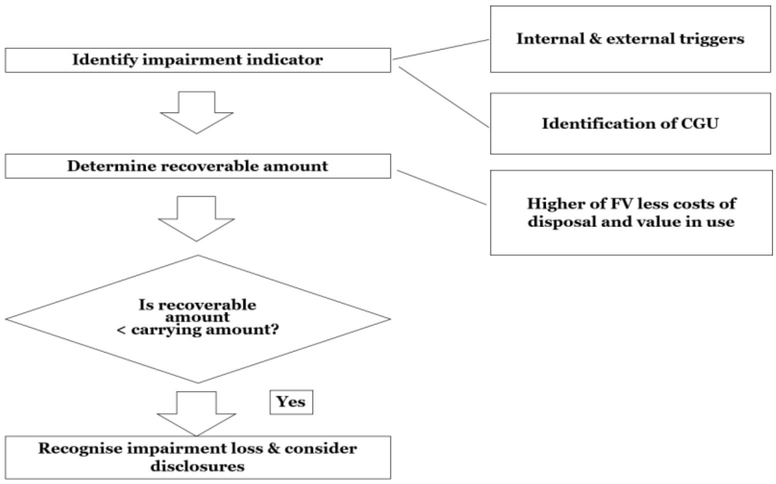
IAS 36 "Impairment of Assets" requires an entity to assess, at the end of each reporting period, whether there is an indication that the entity's non-financial assets are impaired. Entities will need to assess whether the COVID-19 pandemic has potentially led to an asset impairment.

When indications for impairment exist, the entity needs to determine the recoverable amount of the asset (or cash generating unit, "CGU").

To measure impairment, the recoverable amount of an asset/CGU is then compared to the asset's/CGU's carrying amount. The recoverable amount is the higher of:

- Fair value less costs of disposal (FVLCOD); and
- Value in use (VIU).

If the recoverable amount is less than the asset's/CGU's carrying amount, then an impairment loss is recognised.




Assets in scope of IAS 36 that may need to be assessed for impairment include:

- property, plant and equipment (IAS 16),
- definite and indefinite-lived intangible assets, including goodwill (IAS 38),
- right of use assets (IFRS 16),
- equity accounted investments such as associates and joint ventures (IAS 28),
- investments in subsidiaries, associates and joint ventures accounted for at cost in an entity's separate financial statements (IAS 27),
- investment properties accounted for at cost (IAS 40).

## 4. Impairment of non-financial assets (continued)

### *Presence of impairment indicators*

IAS 36 requires the consideration of both internal and external indicators to identify if an impairment assessment should be performed [IAS 36:12(a)-(h)]. Similar requirements are applicable for equity accounted investments under IAS 28 [IAS 28:41A-41C]. The following impairment indicators might be particularly relevant in the current economic climate:

- actual financial performance is significantly lower than the original budget;
- actual cash flows are significantly lower than earlier forecasts;
- decrease in demand for the entity's products or services and cancellations of orders;
- increased costs due to supply chain issues;
- changes in pricing such as discounts, concessions etc.
- deteriorating financial stability of customer base;
- material changes in mid-term and/or long-term growth rates as compared to the previous estimates;
- market capitalisation less than book value of net assets;
- announced change in business model, restructuring, discontinued operations, etc;
- restrictions in operations such as inability to import, export, or travel;
- increase in the entity's cost of capital;
- change of market interest rates or other market rates of return;
- fluctuations in the foreign exchange rates or commodity prices that impact the entity's cash flows;
- deferral of investment projects; and
- significant or prolonged decrease in the entity's stock price.

This list is not comprehensive and other indicators may exist.

### *Level of testing*

Assets are tested for impairment at the individual asset level (e.g., a single item of property, plant and equipment) unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the CGU to which the asset belongs.

## 4. Impairment of non-financial assets (continued)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### *Cash flow forecasts*

Entities frequently use discounted cash flows to estimate the recoverable amount of an asset/CGU. VIU is the present value of the future cash flows expected to be derived from an asset/CGU and its computation is governed by the provisions of IAS 36. A present value approach may also be relevant when applying an income approach under IFRS 13 "Fair Value Measurement", to determine FVLCOD. The following should be considered:

- **Revisiting cash flow forecasts:** the budget and/or cash flow projections should be revised to reflect the impact of COVID-19 pandemic. This may include updating the supply of and the demand for products and services affected by restrictions on transport, travel and quarantine; reflecting changes in expectations over exchange rates, commodity prices and other assumptions. It is necessary to consider adjustments to cash flows in light of short-term, medium-term and long-term effects. It is also recommended to develop multiple scenarios and probability-weighted cash flow projections.

- **Recalculating the discount rates:** Discount rates to be used in recent valuations need to be updated to reflect the risk environment at the reporting date, the impact of COVID-19 and the measures taken to control it (for example, the risk-free rate, country risk and asset risk). Due to increased volatility and uncertainty in the expected cash flows, discount rates may increase.

Preparers should follow the provisions of paragraphs 126 to 135 of IAS 36 in determining the disclosure requirements. Even if these disclosures do not apply, preparers should consider the disclosures about the key assumptions and major sources of estimation uncertainty in the annual reports [IAS 1:125-129]. Such disclosures may include information around cash flow projects, discount rates and long-term growth. Sensitivity analysis might also need to be provided on key estimates.

## 5. Fair value measurement

The objective of fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions.

The impact on fair value measurement arising from the coronavirus pandemic and the ensuing economic and market disruptions varies across countries, markets and industries. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of possible estimates of fair value measurement, entities are required to apply judgement to determine the point within that range that is most representative of fair value in the circumstances.

This part of the TC provides the key fair value measurement considerations within IFRS 13 which applies when another IFRS Standard requires or permits fair value measurements or disclosures about fair value measurements.

The definition of fair value contemplates an orderly transaction, which is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities and it is not e.g., a forced transaction (e.g., a forced liquidation or distress sale).

The volatility in prices in the markets can affect fair values either directly (e.g., if fair value is determined based on market prices such as debt securities traded on an active market), or indirectly if valuation is performed using inputs derived from volatile markets. 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. Evidence of whether a transaction is orderly must be evaluated when deciding the weight that is placed on the transaction price when estimating fair value measurement or market risk premiums. If the observed price is based on a transaction that is determined to be forced or disorderly, little, if any, weight should be placed on it compared with other indications of value.

The main observations that are affecting fair value are:

- Decrease in market liquidity;
- Less consistency in pricing feeds from established pricing services;
- Bid/Offer spreads increased in all markets;
- Increase in credit risk;
- Credit spreads for investment grade and non-investment grade entities increased;

## 5. Fair value measurement (continued)

- Increase of market volatility and dividend postponement/cancellation;
- Equity volatility reached levels of the last financial crisis;
- Exchange rate movements;
- Interest rates implied volatilities have spiked.

Significant judgment may be needed for the determination of whether a transaction price is orderly and for the quantification of risk premiums and other adjustments for these risks. While market factors such as an imbalance in supply and demand and liquidity constraints can affect the prices at which transactions occur in a given market, such an imbalance does not automatically indicate that the parties to a transaction were not knowledgeable and willing market participants or that a transaction was not orderly. An entity's conclusion that it would not sell an asset or transfer a liability at prices currently observed in the market does not mean these transactions should be presumed to be distressed.

IFRS 13 makes clear that fair value is a market-based measurement, not an entity-specific measurement, and notes that the reporting entity's intention to hold an asset or liability in a market downturn is not relevant.

Also, the number of fair value measurements classified as Level 3 in the fair value hierarchy may increase (e.g., due to unobservable inputs such as the credit risk becoming significant in the current environment).

Companies may need to reassess valuation techniques if they rely on information that is no longer available, such as when markets become inactive, or if current market conditions indicate that a different technique would maximize the use of observable inputs versus unobservable inputs [IFRS 13:61].

A significant decrease in volume or activity in a market can influence:

- the valuation technique(s) used by entities;
- how those techniques are applied and;
- whether inputs are observable at the measurement date.

For example, the application of the market approach can prove more challenging and the use of additional valuation techniques and the use of unobservable inputs may be deemed necessary. Consequently, this impacts the categorization of the fair value measurement within the fair value hierarchy and changes thereto (e.g., transfer from Level 2 to Level 3 if unobservable inputs are significant to the fair value measurement) that will drive the nature and extent of disclosures required by IFRS 13.

## 5. Fair value measurement (continued)

In addition, a significant decrease in the volume of transactions does not automatically imply that a market is no longer active. Despite a decrease from recent (or historical) levels of activity, transactions for an asset or liability in that market may still occur with sufficient frequency and volume to provide pricing information on an ongoing basis, such as an equity security traded on a public exchange. Where there is an active market for an identical asset or a liability at the measurement date, entities are required to use the quoted price at the measurement date in that market (i.e., Level 1 input) as the basis of fair value measurement without adjustment. This is required even where higher volatilities are experienced in an active market near to the measurement date.

IFRS 13's fair value hierarchy requires valuation techniques to maximize the use of observable inputs from orderly transactions and minimize the use of unobservable inputs. Consequently, even if the market for an asset has become less liquid due to the current environment, relevant prices or inputs observed from orderly transactions in these markets must still be considered. It would be inappropriate for an entity to default solely to a model's value based on unobservable inputs such as income approach that uses only an entity's own inputs (a Level 3 measurement), when Level 2 (observable) information, such as recent transacted prices, is available.

If an entity determines that a current valuation technique for a particular asset or liability is no longer appropriate under the current circumstances, the valuation technique should be changed. Such a change is treated as a change in estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" [IFRS 13:66]. Judgement is required in assessing the relevance of observable market data and whether they reflect orderly transactions, particularly in situations where there has been a significant decrease in market activity for an asset or liability.

A change in the fair value, affects the disclosures required by IFRS 13 which requires entities to disclose the valuation techniques and the inputs used in the fair value measurement, as well as the sensitivity of the valuation to changes in assumptions. It could also affect the sensitivity analysis required for recurring fair value measurements categorised within Level 3 of the fair value hierarchy [IFRS 13:93(e)(iv), (h), IAS 1:125, 129].

Members are also reminded about the provisions in IAS 10 whereby abnormally large changes after the reporting period in asset prices are considered as non-adjusting events after the reporting period that would generally result in disclosure [IAS 10: 22(g)].

## 5. Fair value measurement (continued)

Please refer here to listen to a useful podcast on COVID-19 implications on IFRS 13.

## 6. Expected Credit Losses

Financial Instruments within the scope of IFRS 9 "Financial Instruments" such as loans, trade receivables, debt securities, contract assets, financial guarantees and loan commitments not measured at fair value through profit or loss and lease receivables are subject to impairment loss recognition and measurement based on Expected Credit Losses (ECL).

IFRS 9 requires entities to estimate ECL by taking into account "reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions" [IFRS 9:5.17(c)]. It is difficult to provide reasonable and supportable forward-looking information in this turbulent environment, which in turn makes the long-term forecasting a challenging task. As such, it is important that entities sufficiently disclose in the financial statement the key assumptions used and the judgements made.

IFRS 9 requires a simplified model for the calculation of the loss allowance on trade receivables, contract assets and lease receivables that do not contain a significant financing component in accordance with IFRS 15 and allows the use of such a model as an accounting policy choice for the calculation of the loss allowance on trade receivables, contract assets and lease receivables that contain a significant financing component in accordance with IFRS 15. Entities using the simplified model often use provisioning matrices that are based on historical data. Those matrices will have to be adjusted to incorporate reasonable and supportable information that is available at the reporting date, including the impact of the COVID-19 coronavirus outbreak. The COVID-19 outbreak will require entities to revisit the provision matrix approach considering various factors such as the amount and timing of ECL, include additional scenarios and the impact of any government support schemes, the disruption in operations, the volatility in potential economic conditions and any lack of historic data reflecting sufficiently adverse economic conditions on which to base the estimate. Also, the identification of categories of customers with similar characteristics could change.

Refer here for an example of a provision matrix for corporates in a COVID-19 environment.

## 6. Expected Credit Losses (continued)

Staging analysis is needed in relation to accounting for ECL applying the general approach. Under IFRS 9, financial instruments are required to be moved from Stage 1 (measured at 12-month ECL) to Stage 2 and Stage 3 (measured at lifetime ECL) if and only if they have been subject to a significant increase in credit risk (SICR). A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. Where it is difficult for entities to identify and estimate the effects of COVID-19 at an individual instrument level, they may perform the staging analysis on a collective basis.

As the COVID-19 outbreak continues, entities should carefully assess the measurement of ECL. Entities will need to apply judgement to determine whether SICR has occurred as at the reporting date, also taking into consideration forward looking information.

Irrespective of whether the simplified approach or the 3-stage model set out in IFRS 9 is applied to assess ECL, the widespread reduction in economic activity across the globe and cash flow difficulties experienced by customers should be factored into an entity's forecasts for future conditions. The economic impacts of the COVID-19 outbreak will differ across industries and geographies.

An increase in an entity's provision for ECLs may result to reflect:

a) a larger probability of default (PD) due to the deterioration in the GDP outlook and reduced economic activity, even for those financial assets that do not exhibit significant increases in credit risk at present but may in the future;
b) a higher degree of loss given default, because of potential decreases in the value of collaterals and business cash flows adversely affecting the expected amount of loss; and
c) increase in exposure at default as borrowers may utilize undrawn limits and loan commitments.

Entities will also need to consider the economic support and relief measures (including debt moratoria, reduction in interest rates) on the credit risk over the expected life of the instruments. Obtaining government aid does not necessarily mean that a company's credit risk has significantly increased.

### *Modifications and forbearance*

As borrowers face greater risk of financial stress from the consequences of COVID-19, they might approach lenders to ask for concessions against the current terms of their borrowings. For example, they might request relaxation of covenants, delayed repayment of interest or principal, or a reduction in the interest rate.

## 6. Expected Credit Losses (continued)

Governments might encourage banks to provide concessions for particular types of customers.

Both lenders and borrowers will need to analyse any such arrangements carefully to determine the appropriate accounting treatment – i.e., they will need to assess whether:

- there has been a modification in the contractual terms of a financial instrument and, if so, whether it leads to a derecognition gain or loss, or a remeasurement of its amortised cost [IFRS 9:5.4.3 and IFRS9:3.3.2]. Refer also to Section 8 "Financial instruments - Amendments in the terms of financial instruments"; and
- for the lender, the arrangement indicates SICR or a credit impairment, or results in a partial write-off of the loan [IFRS 9:5.5.12].

If a government provides assistance to a lender and this in turn enables the lender to provide support to its customers, then the lender will need to consider how to account for that assistance – in particular, whether government grant accounting under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" is required. Refer also to the Section 7 "Government Grants" below.

***Sovereign exposures***

Companies with exposures to governments, including investments in sovereign bonds, will need to update their measurements of ECLs and assessments of whether there is a significant increase in credit risk. COVID-19 is putting pressure on government finances and the pressure may become more intense over the coming months – this may impact the assessment of sovereign credit risk. The likelihood of SICR occurring in the near future will be elevated for sovereign exposures that are at the lower end of the investment grade rating range with a negative outlook [IFRS 9:5.5.9].

***Disclosures regarding Risk Concentration and Liquidity under IFRS 7***

Moreover, entities with concentrations of risk encounter greater risk of loss than other entities. Paragraph 34(c) of IFRS 7 "Financial Instruments: Disclosures" requires that concentration of risk should be disclosed if not apparent from other risk disclosures provided.

Liquidity risk in the current economic environment is increased. Hence, it is anticipated that the disclosures required under IFRS 7 in this area will mirror any changes in the liquidity position as a consequence of the COVID-19 outbreak.

## 7. Government Grants

Governments around the world are implementing massive new programs which impact a wide range of companies. These are different from the grants typically given in the past, which targeted a specific industry or company.

Government grants may be in the form of forgivable loans, below-market interest rate loans, waivers of expenses, non-monetary assets and other subsidies. Another example of government grant, that has been observed in many countries is the wage subsidy or job retention scheme (furlough scheme). Such schemes are aimed at helping companies retain their employees and cover personnel expenses during the crisis.

***Accounting for government grants***

A company recognises a government grant when it has reasonable assurance that it will comply with the relevant conditions and the grant will be received. This may be a judgmental matter, particularly when governments are introducing new programs that may require new legislation, or for which there is little established practice for assessing whether the conditions to receive a grant are met.

If the conditions are met, then a company recognises government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. Companies need to consider the conditions associated with the grant carefully to determine whether it compensates expenses already incurred or future costs.

Measurement and presentation of government grants depends on the nature of the grant and the company's accounting policies. For example, companies may need to develop accounting policies for:

- grants in the form of non-monetary assets – whether to measure at nominal or fair value;
- grants related to assets – whether to deduct the grant from the cost of the asset (net presentation) or present the grant separately as deferred income to be amortised over the useful life of the asset (gross presentation); and
- grants related to income – whether to offset the grant against the related expenditure (net presentation) or to present it separately or under a general heading such as 'Other income' (gross presentation).

Relevant consideration should be made where government actions to provide below-market rate loans or forgivable loans where there could be an interaction between IFRS 9 loan accounting and grant accounting under IAS 20.

## 7. Government Grants (continued)

Therefore, in assessing whether the grant will be received, it is important to understand the legislative process which can be different in each country. Also, some governments are departing from their normal processes to adopt these relief packages as quickly as possible. Thus, it might not be as simple as just looking to whether the legislation has been passed.

Complications in accounting can arise, for example, in cases where the grant compensates for personnel costs, but if a company normally capitalises some of those costs into the cost of an asset like PP&E or intangible (e.g., technology companies) then it may need to recognise a part of the grant over a longer period to make sure they are matching the grant with the related expense.

### *Example 1: Government grants on wages*

A company receives a grant in 2020 relating to a wage subsidy program introduced in response to the COVID-19 coronavirus pandemic. The company was entitled to the wage subsidy because it had to shut down its operations in and furlough its employees from March to July 2020 but keep them on the payroll. The conditions attached to the grant were met. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020. The grant shall be recognised in profit or loss over the same period as the costs to which it relates. It can be presented either in 'Other Income' and the related wages and salaries for furloughed employees recognized in the relevant expense account or it can netted-off with the related expense.

Companies should also assess whether there are no unfulfilled conditions or contingencies for the government assistance on 31 December 2020 and disclose the fact.

### *Example 2: Financial guarantees provided by government on bank loans to companies*

A company receives a loan during 2020. During this period the government introduces a general financial support scheme in response to the economic impacts of the COVID-19 coronavirus pandemic, which provided a guarantee of the full amount of qualifying new corporate loans issued by banks in the country. The loan qualified for this financial support scheme and is guaranteed by the government.

## 7. Government Grants (continued)

The company determined that the interest rate for an equivalent loan issued on an arm's length basis without the guarantee would have been x, x%. The company concluded that the difference between the interest rate on the loan of y, y% and x, x% is government assistance that is intended to compensate the company for interest expense that would otherwise be incurred if the loan was not guaranteed under the financial support scheme. This government assistance is recognised and measured as part of the unit of account in determining the fair value of the loan. Companies should also assess whether there are no unfulfilled conditions or contingencies for the government assistance on 31 December 2020 and disclose the fact.

## 8. Financial instruments - Amendments in the terms of financial instruments

As a consequence of COVID-19, borrowers and lenders may enter into agreement to modify the terms of financial instruments such as loans (i.e., by reducing interest rates, modifying payment terms and providing "grace periods" for covenant violations).

In such cases, entities should consider the IFRS 9 guidance for the modification of assets (for lenders) and liabilities (for borrowers) and assess whether such changes represent a substantial modification and hence a contract extinguishment.

For financial liabilities: IFRS 9 provides guidance on a quantitative test when determining whether a modification of a financial liability is substantial, which includes a comparison of the old and revised cash flows before and after the modification, discounted at the original effective interest rate, commonly referred to as the "10% test". However, other qualitative factors could be considered when assessing derecognition in addition to the 10% test (e.g., if a debt is restructured to include an embedded equity instrument, if the currency denomination is changed etc.).

For financial assets: There is no explicit guidance in IFRS 9 for when a modification of a financial asset should result in derecognition. Hence, entities need to develop an accounting policy as to when a modification of a financial asset results in derecognition or not, which is often based on qualitative considerations and, in some cases, include the "10% test" by analogy. Taking such an approach for assets by analogy should be performed with care.

## 9. Rent concessions granted as a result of the coronavirus pandemic

Since the beginning of the pandemic, it was observed that rent concessions were frequently granted to lessees as a direct consequence of the coronavirus pandemic.

Under normal IFRS 16 requirements, entities need to evaluate whether such concessions constitute lease modifications by considering all relevant facts and circumstances, including the contractual arrangements for each lease. Lease modifications are 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.

An amendment to IFRS 16 issued in May 2020 (*Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases (the amendment)*) provides an optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic (note that this amendment does not apply to lessors). The amendment is effective for annual reporting periods beginning on or after 1 June 2020, with earlier application permitted.

Lessees may apply this practical expedient, only if <u>all</u> three of the conditions stated below are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; and
b) any reduction in lease payments affects only payments originally due on or before 30 June 2021[1]; and
c) there is no substantive change to other terms and conditions of the lease.

The amendment does not provide explicit guidance about how the practical expedient should be accounted for (i.e., how such rent concessions that are not accounted for as lease modifications should be accounted for). It is expected that lessees would account for the change in lease payments in the same way as they would account for a change if the change was not a lease modification.

[1] At the time of this technical circular, the IASB decided at a supplementary meeting on 4 February 2021 to propose an extension to the time period over which the practical expedient in paragraph 46A of IFRS 16 Leases is available for use. The Board expects to publish the proposed amendment in an exposure draft on 11 February 2021 with a 14-day comment period.

## 9. Rent concessions granted as a result of the coronavirus pandemic (continued)

There are several interpretations for the appropriate accounting, depending on the type of concession. Typical concessions include:

a) forgiveness or deferral of lease payments;
b) forgiveness or deferral of lease payments, subject to a contingency;
c) deferral of payments as if the lease is unchanged.

## 10. Other useful reading

- Accounting implications of the effects of coronavirus, *PwC*
- Accounting considerations related to covid, *Deloitte*
- Accounting considerations of the coronavirus pandemic, *EY*
- Accounting for COVID-19 related rent concessions, *EY*
- Applying IFRS -Disclosure of COVID-19 impact, *EY*
- COVID-19 | Resource centre on the financial reporting impacts of coronavirus, *KPMG*
- Applying IFRS Standards in 2020— impact of covid-19, *IASB*
- Company Guidance COVID-19, *FRC*
- Coronavirus: Going concern considerations – a guide for FRS 102 preparers, *ICAEW*
- COVID-19 accounting considerations for CFOs – Government grants, *Grant Thornton*
- COVID-19- Going concern, risk and viability, *FRC*
- COVID-19 Supplement - Guide to annual financial statements, *KPMG*
- COVID-19 Thematic Review, *FRC*
- Common enforcement priorities for 2020 annual financial reports, *ESMA*
- Examples for reporting the impact of COVID-19 on going concern and subsequent events in financial statements, *PwC*
- Guidance for companies on Corporate Governance and Reporting, *FRC*
- Impairment implications of COVID-19, *BDO*
- Planning for the 2020/21 reporting season - Practical help for preparers, *ICAEW*
- Policy measures taken against the spread and impact of the coronavirus – 16 November 2020, *European Commission*

*The links are provided purely as indicative reference points and it is acknowledged that their inclusion herein does not constitute endorsement of any specific view/position.*

# Audit considerations

## 1. Audit evidence

The impact of the COVID-19 will need to be considered by the auditors in a number of ways as it is likely to raise challenges such as delays or inability in obtaining sufficient and reliable audit evidence. Indicatively, the following areas, amongst others, need to be treated with higher degree of professional scepticism:

- It is the auditors' responsibility to obtain sufficient and appropriate audit evidence before issuing their audit reports. Auditors under the current circumstances may need to explore alternative means, including technology to the extent possible. Authenticity, authorization and integrity risks of audit evidence exist for both manually signed and electronically signed and manually received and electronically received documents. The auditor must be alert to this risk.
- Source documents/other supporting audit evidence may not be available in which case the auditor would need to assess whether alternative sources of information exist that could provide an equivalent level of comfort. Accordingly, this may impact either the timing of the audit or the type of audit report.

  Auditor should consider specific areas which may include:

  - assessing the reliability and authenticity of audit evidence obtained in electronic form, such as scanned/copied documents.
  - increasing supervision and review to respond to the increased professional judgment and the need to apply professional skepticism in all aspects of the audit.
  - considering the expected response and alternative procedures to obtaining external confirmations; the use of confirmations from third parties will likely be impacted by changing how these parties confirm the information and/or a reduction in the number of responses.
- Risk assessment and the extent to which it needs to be updated to reflect current circumstances; it would need to be continuously reassessed and calibrated as the situation evolves, up until the audit report signing date.

- Potential inability of audit clients to leverage the competencies of management experts (such as real estate valuers, professional legal advisors etc) whose input may be paramount especially in areas of higher estimation uncertainty and inherent judgement. Early identification of any such restrictions and a viable audit time plan would need to be determined.

## 1. Audit evidence (continued)

- The extent and content of management representations would need to be assessed as the auditor may seek to rely on additional representations from management where there are inabilities in obtaining audit evidence, albeit such representations would not be a substitute for obtaining the required audit evidence or for any warranted modifications in the audit report.
- Going-concern assumptions and assessments taking into account the volatility and uncertainties in the current economic environment. Refer to additional considerations in Section 4 "Audit considerations" in relation to Going Concern".
- Considerations with respect to group audits whereby the group auditor will be required to review the work of component auditors (subject to current travel restrictions imposed, both inland and abroad) and how the group auditor can ensure that adequate procedures are performed so that the relevant auditing standards are adhered to. Refer to additional considerations in Section 3 "Group audit considerations".
- The level and sufficiency of possible disclosures, both qualitative and quantitative, to be made in the financial statements whereby the impact of the COVID-19 outbreak is outlined in accordance with the entity's business and future plans and how these might be impacted going forward. Refer also to the detailed considerations in the financial reporting Section 6 "Expected Credit Losses".
- Potential impact on audit report would need to be critically evaluated. Refer to additional considerations in Section 5 "Implications for the auditor's report".

## 2. Planning and risk assessment

At the planning stage the audit engagement teams would need to thoroughly assess and evaluate the identified impact of COVID-19 in establishing materiality levels, including, amongst others, the determination of suitable benchmarks and thresholds, which may warrant alterations compared to previous reporting periods.

The audit engagement teams may need to further consider the impact of the pandemic on their understanding and evaluation of an entity's internal control environment. Potential areas may include amongst others, the following:

- Remote working by an entity's personnel may have necessitated changes in the entity's IT control environment, such as the granting of remote access rights to

## 2. Planning and risk assessment (continued)

- specified employees at a different level than before thus giving rise to new IT risks relevant to the audit;
- Cybersecurity risks potentially stemming from unauthorised access, or access from remote locations rather than the customary corporate office IT network;
- Risks emanating from alterations in the assignment of responsibilities, redeployment of personnel, furloughs etc which could impact the operation of controls and/or the relevant segregation of duties.

The audit engagement teams would need to critically evaluate and update, where needed, their fraud risk assessment by taking into account any significant operating challenges that the entity may be experiencing e.g., from moving to a remote working model, which could increase incentives and pressures or introduce new opportunities for management or others to perpetrate fraud, including management override of controls.

Auditors should discuss with management and Those Charged with Governance how they have assessed the impact of COVID-19 on the business and evaluate whether there are new or changed risks that could be material. Understanding how Those Charged with Governance are addressing the new or changed risks is essential for the auditors in understanding where changes may be needed to the audit. Ongoing communication throughout the audit is also essential as the entity's circumstances may change.

It is also important to understand how any relevant changes in laws or regulations impact the entity and how it operates.

### *Auditing Accounting Estimates*

The uncertainty of the current environment and the continual changing nature of the impact of the COVID-19 pandemic has added further complexity and challenges when auditing accounting estimates.

ISA 540 (Revised) "Auditing Accounting Estimates and Related Disclosures" is new and is effective for financial statements of periods beginning on or after 15 December 2019 (i.e., 31 December 2020 year ends). ISA 540 (Revised) explains how inherent risk factors can assist the auditor in identifying and assessing risks of material misstatement in accounting estimates. The inherent risk factors focused on in ISA 540 (Revised) include estimation uncertainty, complexity, and subjectivity (there are others, but these have been focused on in ISA 540 (Revised) and are particularly relevant in the current environment). The COVID-19 pandemic will likely heighten

## 2. Planning and risk assessment (continued)

the impact of all three factors, in particular uncertainty and subjectivity (because of the increased uncertainty).

The degree of estimation uncertainty may increase because there is uncertainty about the associated economic impact of the pandemic, including for how long this impact will continue. The changing circumstances and uncertainty may also impact the selection and application of the method or data used and obtaining reliable data may be more challenging. In addition, when there is more uncertainty, the subjectivity in the selection of method, assumptions, and data increases. When there is a high degree of subjectivity the accounting estimate may be susceptible to management bias. More may be needed from management, such as different considerations about assumptions and models used, as well as in some cases stress testing the accounting estimates. These factors need to be considered by auditors in their audit planning, risk assessments and discussions with management and Those Charged with Governance.

## 3. Group audit considerations

Group auditors need to consider the implications of directing and supervising component auditors in the COVID-19 environment, where there are potentially increased risks of material misstatement (RoMMs) and auditors as well as entity management and personnel are operating through a remote working environment. This process includes a sufficient understanding of the environment the auditors are working in as well as an assessment of their ability to access and review working papers. Given the constantly shifting environment, it is critical that group engagement teams document clearly their ongoing two-way interactions and communications, especially as this is expected to change how group engagement teams direct and supervise their component auditors. In case visits by the group auditors are not feasible, then the group auditors can discuss with clients to amend reporting timescales, if possible, and/or can undertake other measures to allow them to meet the requirements of ISA 600 "Special considerations- audits of group financial statements (including the work of component auditors)".

Other action items that can enhance the existing direction and supervision activities performed by the group engagement team may include, but are not limited to, the following:

- Determine how component auditors are affected by the remote working environment.

## 3. Group audit considerations (continued)

- Hold initial discussions (during the planning phase of the audit) with component auditors on their plans for addressing increased audit risk in the COVID-19 environment and document the significant outputs of the discussion.
- Increase frequency and depth of discussions with component auditors.
- Update referral instructions for changes in the audit plan.
- Develop a plan for reviewing component auditor working papers and consider the following:
    - can the component auditor be asked to complete a detailed questionnaire or include additional detail in the issues memorandum on the work they have performed?
    - can a more detailed memorandum be provided to the component auditor on what work should be done for group reporting?
    - can group auditors be given access to the electronic audit file of component auditors to allow for review?
    - can key audit documentation be provided to the group auditors remotely by, for example, videoconference or skype meeting in order to ensure that sufficient and appropriate audit evidence was obtained from the audit procedures performed by the component auditor?
- Re-evaluate group audit scoping decisions as year-end approaches.
- Document significant judgments and estimates (especially the reliability and relevance of audit evidence – refer to Section 1 "Audit Evidence").

## 4. Audit considerations in relation to going concern

It is critical to understand how current events and conditions could have a significant impact on the entity's ability to continue as a going concern and therefore robust and entity- specific disclosures will need to be provided. Considerations such as, but not limited to budgets and forecasts, financing challenges, with the key issue being whether an entity still has sufficient liquidity to continue to meet its obligations as they fall due.

In assessing whether the going concern assumption is appropriate, management assesses all available information about the future, considering the possible outcomes of events and changes in conditions and the realistically possible responses that are available to such events and conditions. Those considerations include, among others, the current economic uncertainty and market volatility caused by the COVID-19 pandemic.

## 4. Audit considerations in relation to going concern (continued)

Given the rapidly changing economic and business circumstances and the impact of COVID-19, the period for which management considers all available information about the future may need to be extended beyond the minimum specified in IAS 1 (which is at least, but not limited to, 12 months from the reporting date). This will depend on the entity's specific facts and circumstances [IAS 1:26]. The assumptions used in the going concern assessment should be consistent with those used in other areas of the entity's financial statements.

The auditor is required to obtain sufficient and appropriate audit evidence about the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and to conclude whether a material uncertainty exists. ISA 570 (Revised) "Going Concern", requires the auditor to evaluate management's assessment, covering the same period as that used by management.

Auditors also consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

When the auditor evaluates management's assessment and the feasibility of their plans for future actions in respect of going concern, the key considerations are:

- to objectively challenge management's plans and significant assumptions used on budgets and cash flows and to obtain evidence that they have realistically factored in the effects of events and conditions affecting the entity (including its operations in other jurisdictions) and its environment, including, as applicable, uncertainties associated with the outbreak;
- when management's plans are in part dependent on the actions of others, such as lenders agreeing to renew or restructure credit facilities or government plans to provide support to significantly impacted sectors such as subsidies / short-term tax relief, to evaluate whether sufficient appropriate audit evidence is obtained that the other party has the intent and ability to take the expected actions, recognising that actions in the past may not be a reliable predictor of future actions given the significant change in the economic outlook, the reduced customer demands, the operational disruptions etc;
- to seek objective evidence that either confirms or challenges management's representations; – assessing the need to consider events and conditions beyond the period of management's assessment (as mentioned above);
- to evaluate whether assumptions are realistic and achievable in view of the entity's circumstances and are consistent with the general economic environment and auditor's understanding of the entity (including whether management has appropriately considered the impacts of the lock downs/operational disruptions when relevant); and

## 4. Audit considerations in relation to going concern (continued)

- to consider the impact on compliance with bank covenants in case of a delay in being able to report or in case a qualified opinion is given. Whilst audit clients should be talking to banks to obtain waivers these may not be able to be obtained.

Auditors should ensure that the review of the going concern and viability is updated to the date of signing the audit report, includes a period of at least twelve months from the reporting date, and has been challenged sufficiently, and sensitivities considered are severe but plausible to make the assessment. Finally, the auditor needs to evaluate the adequacy of the disclosures, including whether information related to the going concern assessment is complete and accurate in accordance with the requirements of ISA 570.

## 5. Implications for the auditor's report

Following the assessment of the impact of the COVID-19 developments, the auditors need to consider any implications for the auditor's report. Important considerations include the following:

a) *Modifications to the auditor's opinion in accordance with ISA 705 (Revised) "Modifications to the opinion in the independent auditor's report"*

   Examples of when modifications to the auditor's opinion may arise because of material misstatement of the financial statements include:

- If auditors are unable to obtain sufficient, appropriate and reliable audit evidence, even after considering any possible alternative actions, they may need to modify the audit report and issue either a qualified opinion modified for inability to obtain sufficient and appropriate audit evidence (for example if a single balance cannot be audited) or a disclaimer if the matter is pervasive throughout the accounts.
- The appropriateness or adequacy of disclosures in the financial statements will need to be considered. For example, when the financial statements do not include all of the disclosures required to appropriately describe effects of current circumstances on the entity resulting from the COVID-19 pandemic, including sufficient description of relevant risks, estimates and judgments applied for that entity, the auditor may need to modify the auditor's opinion and issue either a qualified opinion modified for the material misstatement of the financial statements or an adverse opinion if the matter is pervasive.

## 5. Implications for the auditor's report (continued)

b) As discussed in Section 4 "Audit considerations in relation to Going Concern", every entity needs to perform an impact assessment for going concern and their auditors need to consider the going concern assessment of the management. The implications for the auditor's report will depend on the audit evidence obtained, the basis of preparation adopted, and the disclosures made by management in the financial statements, including disclosures relevant to the material uncertainty related to going concern.

For example, where management concludes that the entity is a going concern but is aware there is a material uncertainty:

- if the auditors agree that the entity is a going concern, and the material uncertainty is adequately disclosed in the financial statements, a 'material uncertainty related to going concern' paragraph shall be included in the auditor's report.
- If management is unwilling to disclose material uncertainties, then the auditors may need to consider issuing a modified auditor's report.

The auditors should follow the guidance in ISA 570 (Revised) to conclude on the implications for the auditor's report with respect to the going concern assessment scenarios, and each audit client must be assessed based on its own situation.

c) If the auditors consider it necessary to draw users' attention to the disclosures made in the financial statements (for example in the note for events after the reporting period (see Appendix 1) or other operating environment narratives in the notes (see Appendix 2), that in the auditors' judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditors can include an 'Emphasis of Matter' paragraph in the auditor's report, provided:

i. The auditors would not be required to modify the opinion in accordance with ISA 705 (Revised), as a result of the matter; and

ii. For listed entities, that ISA 701 "Communicating key audit matters in the independent auditor's report" ("ISA 701") applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

**The auditors should critically evaluate the need for such an 'Emphasis of Matter' in the audit report, based on the situation of each audit client.**

## 5. Implications for the auditor's report (continued)

d) For audit clients which are Public Interest Entities (PIEs) or circumstances when the auditors decide to communicate key audit matters in the auditor's report in accordance with ISA 701 (applies to all listed entities) and Article 10 of the EU Regulation 537/2014 (applies to all EU PIEs), the auditors need to assess whether the COVID-19 developments need to be reported as a key audit matter in the auditor's reporting accordance with ISA 701 and Article 10 of the EU Regulation 537/2014. For instance, to describe the approach for the audit/group audit and the alternative procedures carried out as well as to explain that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

In the cases of audits of PIEs where auditors conclude that they will modify their audit report or include a reference to a material uncertainty relating to the going concern, the auditors should report this to the respective PIE supervisors (being CYSEC for listed entities, Central Bank of Cyprus for banks, or Superintendent of Insurance for insurance entities) before the issuance of the auditor's report, in accordance with the Technical Circular 12/2018 issued by the Cyprus Public Audit Oversight Board (CyPAOB). This should also be communicated to the Audit Committee of the PIEs in the additional report issued by the auditors to the Audit Committee in accordance with Article 11 of the EU Regulation 537/2014.

For non-PIE entities, when there are circumstances that affect the form and content of the auditor's report, communication with those charged with governance should be done on the basis of ISA 260 "Communication with those charged with Governance".

## 6. Other useful reading

- Areas of Focus in an Evolving Audit Environment Due to the Impact of COVID-19, *IAASB*
- Auditor Reporting (including interim review reporting), *IAASB*
- Auditing Accounting Estimates, *IAASB*
- Bulletin: Guidance for auditors and matters to consider where engagements are affected by COVID-19, *FRC*
- *COVID-19 Response* *(collected guidance regularly updated), FRC*
- Ethical and Auditing Implications Arising from Government-Backed COVID-19 Business Support Schemes, *IESBA and FRC*
- Going Concern, *IAASB*
- Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic *Including Considerations for Auditing Financial Statements*, *IAASB*
- *Summary of Covid-19 Audit Considerations*, *IFAC*
- Subsequent Events, *IAASB*

*The links are provided purely as indicative reference points and it is acknowledged that their inclusion herein does not constitute endorsement of any specific view/position.*

## Appendix 1 Illustrative disclosure for the events after the reporting date note for the year ended 31 December 2020

**English version:**

*Events after the reporting date*

Depending on the duration of the Coronavirus disease (COVID-19) pandemic, and continued negative impact on economic activity, the Company/ Group might experience *[further]* negative results, and liquidity restraints and incur *[additional]* impairments on its assets in 2021. The exact impact on the Company's/ Group's activities in 2021 and thereafter cannot be predicted *(to be tailored as relevant)*. In the period since [31 December 2020] the Company/ Group has incurred losses due to impairments recognised on outstanding receivables (XX), write down of inventories (XX) and fair value decreases of securities/derivatives/commodities (XX). [If applicable, disclose impact on bank covenants] *(to be tailored as relevant)*.

The impact of events after the reporting date on the going concern is described in note [x] *(to be tailored as relevant)*.

**Greek version:**

*Γεγονότα μεταγενέστερα της ημερομηνίας αναφοράς*

Ανάλογα με τη διάρκεια της πανδημίας της νόσου του Κορονοϊού (COVID-19) και τη συνεχιζόμενη αρνητική επίδραση στην οικονομική δραστηριότητα, η Εταιρεία/ ο Όμιλος ενδέχεται να παρουσιάσει *[περαιτέρω]* αρνητικά αποτελέσματα και περιορισμένη ρευστότητα και να αναγνωρίσει *[πρόσθετες]* απομειώσεις στα περιουσιακά της/του στοιχεία το 2021. Ο ακριβής αντίκτυπος στις δραστηριότητες της Εταιρείας/ του Ομίλου το 2021 και μετέπειτα δεν μπορεί να προβλεφθεί *(να προσαρμοστεί ανάλογα)*. Κατά την περίοδο από [31 Δεκεμβρίου 2020] η Εταιρεία/ ο Όμιλος υπέστη ζημίες λόγω απομείωσης που αναγνωρίστηκε σε εκκρεμείς απαιτήσεις (XX), απομείωσης αποθεμάτων (XX) και μείωσης της εύλογης αξίας των τίτλων/ παραγώγων/ εμπορευμάτων (XX). [Εάν ισχύει, να γνωστοποιείται η επίπτωση στις τραπεζικές συμβάσεις] *(να προσαρμοστεί ανάλογα)*.

Η επίδραση των γεγονότων που προέκυψαν μεταγενέστερα της ημερομηνίας αναφοράς στην συνεχιζόμενη δραστηριότητα περιγράφεται στη σημείωση [x] *(να προσαρμοστεί ανάλογα)*.

## Appendix 2 Illustrative disclosure for the operating environment of a company in Cyprus for the year ended 31 December 2020

**English version:**

*Operating environment of the Company/ Group*

With the recent and rapid development of the Coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments have implemented restrictions on travelling as well as strict quarantine measures throughout the year.

Industries such as tourism, hospitality and entertainment have been directly disrupted significantly by these measures. Other industries, such as manufacturing and financial services, have also been indirectly affected *(to be tailored as relevant)*.

In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that Cyprus is entering a state of emergency considering the uncertain situation as was unfold daily, the growing spread of COVID-19 outbreak and the World Health Organization's data on the situation.

To this end, certain measures have been taken by the Republic of Cyprus since then with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

New entry regulations have been applied with regards to protecting the population from a further spread of the disease which tightened the entry of individuals to the Republic of Cyprus within the year. Additionally, a considerable number of private businesses operating in various sectors of the economy closed for a period of time while a number of lockdown measures, such as the prohibition of unnecessary movements and the suspension of operations of retail companies (subject to certain exemptions), were applied throughout the year *(to be added or tailored as relevant)*. The measures were continuously revised (lifted or tightened) by the Republic of Cyprus during the year taking into consideration the epidemic status in the country.

The objective of these public policy measures was to contain the spread of COVID-19 outbreak and have resulted in significant/minor operational disruption *(to be tailored as relevant)* for the Company/ Group.

In parallel, governments, including the Republic of Cyprus, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company/ Group has *[not]* applied for such government assistance. The details of all the arrangements that might be available to the Company/ Group and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty. The Company/ Group is continuing to assess the implications for its business when these arrangements are no longer available *(to be tailored as relevant)* and has reflected their impact in its stress-scenarios for going concern purposes.

The impacts of COVID-19 are reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2020. The Company's/ Group's management has assessed *(adjust as necessary depending on the activities, assets and liabilities of the Company/ Group)*:

(1) whether any impairment allowances are deemed necessary for the Company's/ Group's financial assets, non-financial assets (e.g., property, plant & equipment, goodwill, intangible assets), lease receivables, contract assets, loan commitments or financial guarantee contracts, investments in subsidiaries, associates and joint ventures by considering the economic situation and outlook at the end of the reporting period.

(2) whether the net realizable value for the Company's/ Group's inventory exceeds cost. *[Note – additional disclosures may include: (i) Where net realizable value is below cost, the excess should be charged to the profit or loss for the year, or (ii) The demand for many types of real estate properties has been significantly affected and transactions are less frequent, therefore the estimated selling price is highly judgmental.]*

[(3) the ability of the Company/ Group to continue as a going concern (Note .....).]

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. Management's current expectations and estimates could differ from actual results *(the next step is to conclude if the financial effect is assessed as material or not and accordingly adopt one of the two disclosure options that follow)*.

*Additional disclosures when the effect is not assessed as material*

Management has considered the unique circumstances and the risk exposures of the Company/ Group and has concluded that *[there is no significant impact in the Company's/ Group's profitability position.] or [the main impact in the Company's/ Group's profitability position has arisen from [please complete accordingly]]*. COVID-19 did *[not]* have an immediate material impact on the business operations.

The Company's/ Group's management believes that it is taking all the necessary measures to maintain the viability of the Company/ Group and the development of its business in the current business and economic environment.

Management will continue to monitor the situation closely and will assess the need for *[please complete accordingly]* in case the period of disruption becomes prolonged.

*Additional disclosures (extended) when the effect is assessed as material*

Management has considered the unique circumstances that had a material impact on the business operations and the risk exposures of the Company/ Group and has concluded that the main impacts on the Company's/ Group's profitability/liquidity position have arisen from:

- interruption of productivity,
- supply chain disruptions,
- unavailability of personnel,
- reduction in sales due to closure of facilities and stores,
- delays in planned business expansion,
- increased volatility in the value of financial instruments,
- reduced tourism,
- disruption in travel and other leisure activities,
- increase in expected credit losses from trade receivables, investments and intercompany loans,
- failure to meet contractual obligations,
- breach of financial covenants.

*(to be tailored as relevant)*

Management has assessed the trading and relevant cash flows using revised assumptions and incorporating downside scenarios in assessing actual and potential financing needs, taking into consideration the main impacts identified above.

From the analysis performed *[no]* additional liquidity needs/impact on financial covenants have been identified. Management *has negotiated/is already negotiating* with the financial institutions covenant resets/waivers and *has already assessed/is assessing* future measures and alternative sources of financing such as:

- group financial support (*in the case of a Company)*
- additional drawdown from existing credit facilities
- later payment to suppliers
- factoring of receivables
- additional financing
- cost cutting measures
- sale of investments

*(to be tailored as relevant)*

*[The factors that indicate the existence of material uncertainty on the ability of the Company/ Group to continue as a going concern are disclosed in Note ..]*

Management will continue to monitor the situation closely and assess/seek additional measures/committed facilities as a fall back plan in case the period of disruption becomes prolonged.

*[Note: If any of the disclosures in the note for the events after the reporting date are included in the note for the operating environment then a cross-reference can be made.]*

*[Note: Depending on each Company's/ Group's facts and circumstances, relevant disclosures should be provided describing the expected financial impact on the Company/ Group taking into account all information available as of the date of issuing the financial statements.]*

**Greek version:**

*Λειτουργικό περιβάλλον της Εταιρείας/ του Ομίλου*

Με την πρόσφατη και ταχεία εξέλιξη της πανδημίας της νόσου του Κορονοϊού (COVID-19) η παγκόσμια οικονομία εισήλθε σε μια περίοδο πρωτοφανούς κρίσης στον τομέα της περίθαλψης της υγείας, η οποία έχει προκαλέσει σημαντική παγκόσμια αναστάτωση στις επιχειρηματικές δραστηριότητες και την καθημερινή ζωή.

Πολλές χώρες έχουν υιοθετήσει έκτακτα και δαπανηρά μέτρα περιορισμού. Ορισμένες χώρες έχουν απαιτήσει από τις εταιρείες να περιορίσουν ή και να αναστείλουν τις συνήθεις επιχειρηματικές τους δραστηριότητες. Οι κυβερνήσεις έχουν εφαρμόσει περιορισμούς στα ταξίδια καθώς και αυστηρά μέτρα καραντίνας καθ' όλη τη διάρκεια του έτους.

Βιομηχανίες όπως ο τουρισμός, η φιλοξενία και η ψυχαγωγία έχουν διαταραχθεί άμεσα από αυτά τα μέτρα. Άλλες βιομηχανίες, όπως οι κατασκευαστικές και οι χρηματοοικονομικές υπηρεσίες, έχουν επίσης επηρεαστεί έμμεσα *(να προσαρμοστεί ανάλογα)*.

Στην Κύπρο, στις 15 Μαρτίου 2020, το Υπουργικό Συμβούλιο σε έκτακτη συνεδρίαση ανακοίνωσε ότι η Κύπρος εισέρχεται σε κατάσταση έκτακτης ανάγκης λαμβάνοντας υπόψη την αβέβαιη κατάσταση όπως εξελισσόταν καθημερινά, την αυξανόμενη εξάπλωση του COVID-19 και τα στοιχεία του Παγκόσμιου Οργανισμού Υγείας σχετικά με την κατάσταση.

Για το σκοπό αυτό, έκτοτε λήφθηκαν ορισμένα μέτρα από την Κυπριακή Δημοκρατία, για τη διαφύλαξη της δημόσιας υγείας και τη διασφάλιση της οικονομικής επιβίωσης των εργαζομένων, των επιχειρήσεων, των ευάλωτων ομάδων και της οικονομίας γενικότερα.

Έχουν εφαρμοστεί νέοι κανονισμοί εισόδου στη χώρα για την προστασία του πληθυσμού από την περαιτέρω εξάπλωση της ασθένειας, που απαιτούν εφαρμογή αυστηρότερων κριτηρίων για την είσοδο ατόμων στην Κυπριακή Δημοκρατία καθ' όλη τη διάρκεια του έτους. Επιπρόσθετα, ένας σημαντικός αριθμός ιδιωτικών επιχειρήσεων που δραστηριοποιούνται σε διάφορους τομείς της οικονομίας, είχε παραμείνει κλειστός για ορισμένη περίοδο ενώ μια σειρά μέτρων εγκλεισμού, όπως η απαγόρευση των περιττών μετακινήσεων και η αναστολή λειτουργίας των εταιρειών λιανικής (υπό ορισμένες εξαιρέσεις), εφαρμόστηκαν καθ' όλη τη διάρκεια του έτους *(να προστεθεί ή να προσαρμοστεί ανάλογα)*. Τα μέτρα αναθεωρούνταν συνεχώς (αίρονταν ή ενισχύονταν) από την Κυπριακή Δημοκρατία κατά τη διάρκεια του έτους λαμβάνοντας υπόψη την επιδημιολογική κατάσταση της χώρας.

Στόχος αυτών των μέτρων δημόσιας πολιτικής ήταν να περιορίσουν την εξάπλωση του COVID-19 και έχουν συντελέσει σε σημαντική/ μικρή διαταραχή *(να προσαρμοστεί ανάλογα)* στη λειτουργία της Εταιρείας/ του Ομίλου.

Παράλληλα, κυβερνήσεις, συμπεριλαμβανομένης της Κυπριακής Δημοκρατίας, εισήγαγαν διάφορα σχέδια χρηματοδοτικής στήριξης για αντιμετώπιση των οικονομικών επιπτώσεων της πανδημίας COVID-19. Η Εταιρεία/ Ο Όμιλος *έχει/δεν έχει* υποβάλει αίτηση για τέτοια κρατική βοήθεια. Οι λεπτομέρειες όλων των σχεδίων που ενδέχεται να είναι διαθέσιμα στην Εταιρεία/ στον Όμιλο και η περίοδος κατά την οποία θα παραμείνουν διαθέσιμα εξελίσσονται συνεχώς και παραμένουν υπό αβεβαιότητα. Η Εταιρεία/ Ο Όμιλος συνεχίζει να αξιολογεί τις συνέπειες για την επιχείρηση σε περίπτωση που αυτά τα σχέδια δεν θα είναι πλέον διαθέσιμα *(να προσαρμοστεί ανάλογα)* και έχει αντικατοπτρίσει τον αντίκτυπό τους στα ακραία σενάρια (stress-scenarios) για σκοπούς αξιολόγησης της συνεχιζόμενης δραστηριότητας.

Οι επιπτώσεις της πανδημίας COVID-19 απεικονίζονται στην αναγνώριση και επιμέτρηση των περιουσιακών στοιχείων και υποχρεώσεων στις οικονομικές καταστάσεις για το έτος που έληξε στις 31 Δεκεμβρίου 2020. Η Διεύθυνση της Εταιρείας/ του Ομίλου έχει αξιολογήσει *(προσαρμόζεται ανάλογα με βάση τις δραστηριότητες, τα περιουσιακά στοιχεία και τις υποχρεώσεις της Εταιρείας/ του Ομίλου)*:

(1) εάν τυχόν προβλέψεις απομείωσης κρίνονται απαραίτητες για τα χρηματοοικονομικά περιουσιακά στοιχεία, τα μη χρηματοοικονομικά περιουσιακά στοιχεία (π.χ. ακίνητα, εγκαταστάσεις και εξοπλισμός, υπεραξία, άυλα περιουσιακά στοιχεία), τις απαιτήσεις από μίσθωση, τα συμβατικά περιουσιακά στοιχεία, τις δανειακές υποχρεώσεις ή τις συμβάσεις χρηματοοικονομικής εγγύησης, τις επενδύσεις σε θυγατρικές, συγγενείς επιχειρήσεις και κοινοπραξίες της Εταιρείας/ του Ομίλου λαμβάνοντας υπόψη την τρέχουσα και προβλεπόμενη οικονομική κατάσταση κατά το τέλος της περιόδου αναφοράς.

(2) εάν η καθαρή ρευστοποιήσιμη αξία του αποθέματος της Εταιρείας/ του Ομίλου υπερβαίνει το κόστος. *[Σημείωση - πρόσθετες γνωστοποιήσεις μπορεί να περιλαμβάνουν: (i) Όταν η καθαρή ρευστοποιήσιμη αξία είναι χαμηλότερη από το κόστος, το επιπρόσθετο ποσό θα πρέπει να χρεωθεί στο κέρδος ή τη ζημία για το έτος ή (ii) Η ζήτηση για πολλούς τύπους ακινήτων έχει επηρεαστεί σημαντικά και οι συναλλαγές είναι λιγότερο συχνές, επομένως η εκτιμώμενη τιμή πώλησης είναι πολύ υποκειμενική.]*

[(3) την ικανότητα της Εταιρείας/ του Ομίλου να συνεχίσει ως συνεχιζόμενη δραστηριότητα (Σημείωση…).]

Οι οικονομικές επιπτώσεις της τρέχουσας κρίσης στην παγκόσμια οικονομία και στις συνολικές επιχειρηματικές δραστηριότητες δεν μπορούν όμως να εκτιμηθούν με εύλογη βεβαιότητα λόγω του ρυθμού επέκτασης της πανδημίας και του υψηλού επιπέδου αβεβαιότητας που προκύπτει από την αδυναμία να προβλεφθεί αξιόπιστα το αποτέλεσμα. Οι τρέχουσες προσδοκίες και εκτιμήσεις της Διεύθυνσης μπορεί να διαφέρουν από τα πραγματικά αποτελέσματα *(κατόπιν να γίνει αξιολόγηση εάν η επίδραση θεωρείται ως ουσιώδης ή όχι και ανάλογα να υιοθετηθεί η μία από τις δύο επιλογές γνωστοποιήσεων που ακολουθούν)*.

*Επιπρόσθετες γνωστοποιήσεις όταν η επίδραση δεν αξιολογείται ως ουσιώδης*

Η Διεύθυνση έχει εξετάσει τις ιδιαίτερες συνθήκες και τους κινδύνους στους οποίους εκτίθεται η Εταιρεία/ ο Όμιλος και έχει καταλήξει στο συμπέρασμα ότι *[δεν υπάρχει σημαντική επίπτωση στη κερδοφορία της Εταιρείας/ του Ομίλου.] ή [η κύρια επίδραση στη κερδοφορία της Εταιρείας/ του Ομίλου προέκυψε από την [συμπληρώστε ανάλογα]]*. Η πανδημία COVID-19 *[δεν]* είχε άμεσο ουσιαστικό αντίκτυπο στις επιχειρηματικές δραστηριότητες της Εταιρείας/ του Ομίλου.

Η Διεύθυνση της Εταιρείας/ του Ομίλου πιστεύει ότι λαμβάνει όλα τα απαραίτητα μέτρα για τη διατήρηση της βιωσιμότητας της Εταιρείας/ του Ομίλου και την ανάπτυξη των δραστηριοτήτων της/ του στο τρέχον επιχειρηματικό και οικονομικό περιβάλλον.

Η Διεύθυνση θα συνεχίσει να παρακολουθεί στενά την κατάσταση και θα εκτιμήσει την ανάγκη για *[συμπληρώστε ανάλογα]* σε περίπτωση που η περίοδος διαταραχής παρατείνεται.

*Επιπρόσθετες γνωστοποιήσεις (παρατεταμένες) όταν η επίδραση αξιολογείται ως ουσιώδης*

Η Διεύθυνση έχει εξετάσει τις ιδιαίτερες συνθήκες που θα μπορούσαν να έχουν σημαντικό αντίκτυπο στις επιχειρηματικές δραστηριότητες και τους κινδύνους στους οποίους εκτίθεται η Εταιρεία/ ο Όμιλος και έχει καταλήξει στο συμπέρασμα ότι οι κυριότερες επιπτώσεις στη κερδοφορία/ ρευστότητα της Εταιρείας/ του Ομίλου προέκυψαν από:

- διακοπή της παραγωγικότητας
- διαταράξεις στην αλυσίδα εφοδιασμού
- μη διαθεσιμότητα προσωπικού
- μείωση των πωλήσεων λόγω κλεισίματος εγκαταστάσεων και καταστημάτων
- καθυστερήσεις στην προγραμματισμένη επέκταση των επιχειρήσεων
- αυξημένη μεταβλητότητα της αξίας των χρηματοοικονομικών μέσων

- μείωση του τουρισμού
- διαταραχή στις μετακινήσεις και άλλες δραστηριότητες αναψυχής
- αύξηση των αναμενόμενων πιστωτικών ζημιών από εμπορικές απαιτήσεις, επενδύσεις και ενδοεταιρικά δάνεια
- αδυναμία εκπλήρωσης των συμβατικών υποχρεώσεων
- παραβίαση χρηματοοικονομικών συμβατικών όρων

*(να προσαρμοστεί ανάλογα)*

Η Διεύθυνση έχει αξιολογήσει την εμπορική δραστηριότητα και τις σχετικές ταμειακές ροές, χρησιμοποιώντας αναθεωρημένες υποθέσεις και ενσωματώνοντας αρνητικά σενάρια στην αξιολόγηση των πραγματικών και δυνητικών χρηματοδοτικών αναγκών, λαμβάνοντας υπόψη τις κύριες επιπτώσεις που προσδιορίστηκαν παραπάνω.

Από την ανάλυση που διενεργήθηκε *[δεν]* εντοπίστηκαν πρόσθετες ανάγκες ρευστότητας/ επιπτώσεις σε χρηματοοικονομικούς συμβατικούς όρους. Η Διεύθυνση *έχει διαπραγματευτεί/ διαπραγματεύεται ήδη* με τα χρηματοπιστωτικά ιδρύματα την επαναφορά των συμβατικών όρων/ παρεκκλίσεις και *έχει ήδη αξιολογήσει/ αξιολογεί* μελλοντικά μέτρα και εναλλακτικές πηγές χρηματοδότησης όπως:

- οικονομική υποστήριξη από τον Όμιλο *(σε περίπτωση Εταιρείας)*
- πρόσθετη άντληση από τις υπάρχουσες πιστωτικές διευκολύνσεις
- μεταγενέστερη πληρωμή στους προμηθευτές
- εκχώρηση των εισπρακτέων λογαριασμών
- πρόσθετη χρηματοδότηση
- μέτρα μείωσης του κόστους
- πώληση επενδύσεων

*(να προσαρμοστεί ανάλογα)*

*[Οι παράγοντες που υποδεικνύουν την ύπαρξη σημαντικής αβεβαιότητας σχετικά με την ικανότητα της Εταιρείας/ του Ομίλου να συνεχίσει ως συνεχιζόμενη δραστηριότητα περιγράφονται στη Σημείωση ..]*

Η Διεύθυνση θα συνεχίσει να παρακολουθεί στενά την κατάσταση και να αξιολογεί/ αναζητήσει πρόσθετα μέτρα/ δεσμευμένες διευκολύνσεις ως εφεδρικό σχέδιο στην περίπτωση που η περίοδος διαταραχής παραταθεί.

*[Σημείωση: Αν οποιεσδήποτε από τις γνωστοποιήσεις που περιλαμβάνονται στη σημείωση για τα γεγονότα μεταγενέστερα της ημερομηνίας αναφοράς αναφερθούν στη σημείωση για το λειτουργικό περιβάλλον τότε μπορεί να γίνει παραπομπή.]*

*[Σημείωση: Ανάλογα με τα γεγονότα και τις περιστάσεις της/ του κάθε Εταιρείας/ Ομίλου, θα πρέπει να περιληφθούν σχετικές γνωστοποιήσεις που να περιγράφουν τις αναμενόμενες οικονομικές επιπτώσεις για την/ τον Εταιρεία/ Όμιλο, λαμβάνοντας υπόψη όλες τις διαθέσιμες πληροφορίες κατά την ημερομηνία έκδοσης των οικονομικών καταστάσεων.]*