FRC MAURITIUS

FINANCIAL REPORTING COUNCIL

COVID 19

FINANCIAL REPORTING IMPLICATIONS - Industry specific considerations

1.0 Impact of COVID 19

COVID 19 has set widespread economic uncertainty and volatility in financial markets which may lead to the possibility of a global recession.

This uncertainty surrounding Covid-19, has an impact on most companies who must consider and assess the financial implications of Covid-19 while preparing their financial statements to ensure that they provide up-to-date and meaningful disclosure to users of financial statements.

2.0 Sector information

The sectors which are the most affected by this outbreak are:

- Aviation
- Hospitality
- Commerce
- Financial Institutions
- Insurance
- Investment
- Textile and Manufacturing
- Construction
- Agriculture
- Transport

Other sectors are also directly or indirectly affected by the COVID 19 crisis.

Details of the impact of COVID 19 on the entities operating in different sectors are given below:

- The aviation industry is facing massive disruption with travel restrictions imposed by most jurisdictions.

- The hospitality sector has been impacted with low occupancy in business and holiday destinations having to close down entirely. Travel agencies, tour operators, convention and trade show organizers and casinos face a fall in revenue as businesses and consumers attempt to avoid close contact and closed in spaces.

- The commerce sector is affected when the supply chain is dependent on countries worst hit by COVID-19. While supermarkets and grocery stores may see a spike in demand, there may be a decline in some consumer durables such as automobiles and spare parts. Also, many outlets such as restaurants, snacks, cafe and bars may suffer losses in revenue as they are temporarily closed due to lockdown.

- Financial institutions are being affected with the inability of borrowers to keep up with repayment schedules. Tens of thousands of consumers are now being placed under quarantine or lockdown. As a result, they might lose their ability to pay for credit, particularly mortgages. Also, business loans, especially to small and medium enterprises, are at risk due to the forced shutdown.

- Insurance companies have to face increased in claim costs and a reduction in investment earnings.

- Investment companies will face a reduction in investment income as they depend on the financial results of their investee companies who may be adversely affected by the advent of COVID 19.

- The textile and manufacturing industry are facing a fall in demand from consumers. Stores are closed and almost all buyers are cancelling or postponing orders. Major export destinations, the United States and Europe, are the worst affected. This sector is also hit by supply chain disruptions in raw materials and components from foreign suppliers.

- The construction sector is affected in the short-term as existing projects progress, potentially at a slower pace due to difficulties in some areas to secure materials. The sector is expected to see a slowdown in new projects as businesses assess the coronavirus impact on their revenue and their ability to invest in capital projects.

- Agricultural producers face challenges to sell their products to consumers and expect disruptions in exports to other countries. It may become difficult to export perishable foods which can become spoiled at ports or on ships, due to transport delays.

3.0 Impact of COVID-19 on financial reporting

As a result of the disruption in production and supply chains and other factors affecting the operations of entities caused by the COVID 19 crisis, as described under paragraph 2.0 above there may be a reduction in turnover, profits, salaries and employment and investments and this affects financial reporting. The scope of disclosures to be provided in financial statements shall depend on business specifics, industry and markets on which a company operates.

Companies shall therefore ensure that the following main areas in the financial statements where there could be implications for financial reporting are considered, taking into account requirements of IFRSs which are set out below:

Requirements of financial reporting	**Description of main areas of financial reporting affected by COVID 19**	**Sectors affected**
IAS 1 Presentation of Financial Statements	• **Going concern** When making that going concern assessment, where relevant, management must take into	All businesses mainly small businesses or those in the areas of travel,

	consideration the existing and anticipated effects of the COVID 19 on the entity's activities in its assessment of the appropriateness of the use of the going concern basis. • **Sources of estimation uncertainty at the reporting date** Because the uncertainty associated with management's assumptions about the future is likely to be significant, it is important that management develops robust disclosures to help users understand the degree of estimation uncertainty that exists in estimating the recoverable amount and the sensitivity of the recoverable amount to reasonably possible changes to key assumptions.	leisure & hospitality and aviation, need to consider going concern issues. Depending on an entity's specific circumstances.
IAS 36 Impairment of Assets	**Impairment assessment** ○ This includes impairment assessment for property, plant and equipment, intangible assets, goodwill, right-of-use assets, investment property, biological assets and investments in associates and joint ventures accounted for using the equity method. ○ Companies need to assess whether the impact of COVID-19 has potentially led to an asset impairment.	This is a question regardless of industry sector but particular attention should be paid to those entities that have large property, plant and equipment balances or material goodwill and/or intangible assets.
IFRS 13 Fair Value Measurement	**Fair value assessment** The fair value of an asset (or liability) is determined as per the market conditions at the measurement date. The coronavirus disease 2019 (COVID-19) may lead to a significant change in the assumptions used to measure fair value of the assets and liabilities of a company at the end of the reporting period including considerable change in the valuation techniques being adopted by the companies on account of change in the market conditions. In turn, this affects the classification of the fair value measurements in the fair value hierarchy.	All business mainly those involved in fair valuation of investments, investment property and property, plant and equipment.
IFRS 4 Insurance Contracts	**Insurance obligations and assumptions** When determining their obligations, insurers need to evaluate the precise extent of coverage and the impact of exclusions and limitations on coverage.	Insurance businesses

<table>
<tr><td></td><td>Further, when current demographic and market estimates (including discount rates) are reflected under existing accounting practices, an insurer should assess the extent to which the current developments around COVID-19 require a reassessment of those estimates. As a consequence, an insurer may have to update the demographic and market assumptions used when measuring its insurance liabilities.</td><td></td></tr>
<tr><td>IFRS 15 Revenue Recognition</td><td>Revenue

Companies would need to assess the impact on revenue recognition aspects such as revision of estimates of variable consideration and also timing of revenue recognition including assessment of whether consideration is probable in case of sales to customers in COVID-19 affected regions.

Also, they should consider related impact on recoverability of trade receivables including estimate of expected credit losses.</td><td>All businesses mainly small businesses or those in the areas of travel, leisure & hospitality and aviation, would face a fall in revenue.</td></tr>
<tr><td>IFRS 9 Financial Instruments</td><td>• Impairment of financial instruments

Instruments to be considered include loans, trade and other receivables, debt instruments not measured at fair value through profit or loss, contract assets, lease receivables, financial guarantees and loan commitments.

IFRS 9 requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses.

Forward-looking information might include additional downside scenarios related to the spread of COVID-19.

• Hedge accounting

— The determination of whether forecast transactions such as foreign currency cash flows or debt drawdowns / repayments are highly probable may be affected.

— The impact of such uncertainty on forecast transactions could render the hedges ineffective, resulting in the changes in fair</td><td>All entities having significant financial instruments that are in the scope of IFRS 9. This may include banks, financial institutions and investment companies.

It affects entities that uses hedge accounting</td></tr>
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	value of derivatives hedging instruments being recognised in profit or loss or the hedge relationship being terminated.	
IAS 37 Provisions, Contingent liabilities and Contingent assets	**Onerous contracts** Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting the contract (that is, the lower of the cost to exit or breach the contract and the cost of fulfilling it). Such contracts might include, for example, supply contracts that the entity is not able to fulfil because of the virus. Management should consider whether any of its contracts have become onerous.	It may affect all business which have contracts including those in the manufacturing and industrial sector.
IFRS 7 Financial Instruments: Disclosures	**Liquidity Risk** Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities. The liquidity risk management disclosures shall be as per IFRS 7 and consistent with the going concern assumption assessment. These shall also take into account various impacts such as reduced sales and productivity on the working capital methodology and associated mitigants namely supplier payment delays, early receivable settlements.	It affects all businesses.
IAS 2 Inventories	**Inventory valuation and obsolescence** Some entities may be experiencing supply chain disruptions. Real estate companies with inventories of under construction properties could be impacted by a fall in property prices. Seasonal inventories and perishable products might be exposed to the risk of loss due to damage, contamination, physical deterioration, obsolescence, changes in price levels or other causes. Companies would need to assess whether, on their reporting date, an adjustment is required to the carrying value of their inventory to bring them to their net realisable value in accordance with the principles of IAS 2 'Inventories'. Estimating net realisable value in such volatile market conditions may also be a challenge, on account of the uncertainties presented by the	It mainly affects companies in real estate, commerce and industrial sectors.

	pandemic. If an entity's production level is abnormally low (e.g. due to a temporary shutdown of production), it may need to review its inventory costing to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred (i.e. "excess capacity" should be expensed rather than being added to the cost of inventory).	
IAS 19 Employee benefits and IFRS 2 Share-Based Payments	**Employee benefits and share-based payments** Entities should consider whether any of the assumptions used to measure employee benefits and share based payments should be revised. For example, the yield on high-quality bonds or the risk-free interest rate in a particular currency might have changed as a result of recent developments or the probability of an employee meeting the vesting conditions for bonuses or share based payments might have changed. Companies should consider the impact of any changes made to the terms of, for example, a share-based payment plan, to address the changes in the economic environment and the likelihood that performance conditions will be met. To the extent that such changes are beneficial to the employee, they would be accounted for as a modification and an additional expense recognised. Companies should be aware that cancelling a share based payment award even if the vesting conditions are unlikely to be satisfied results in the immediate recognition of the remaining expense. Entities should also consider whether it has a legal or constructive obligation to its employees in connection with the virus, for example sick pay or payments to employees that self-isolate, for which a liability should be recognised. Companies might be considering reducing its work-force as a result of the virus. IAS 19 Employee benefits requires that a liability for employee termination is recognised only when the entity can no longer withdraw the offer of those benefits or the costs of a related restructuring are recognised in accordance with IAS 37. IFRS 2 Share based payment requires that entities explain modifications to share based payments, along with the incremental fair value granted, as	It affects all businesses which have a workforce.

	well as information about how the incremental fair value was determined. IAS 19 requires extensive disclosure of the assumptions used to estimate employee benefit liabilities, together with sensitivities and changes in those assumptions	
IAS 10 Events after the reporting period	**Subsequent Events** Entities should consider the requirements of IAS 10 Events after the reporting period and in particular whether the latest developments provide more information about the circumstances that existed at the reporting date. Events that provide more information about the spread of the virus and the related costs might be adjusting events. Events, such as the announcement or enactment of new measures to contain the virus or decisions taken by management are likely to be non-adjusting. Clear disclosure of non-adjusting events is required when this is material to the financial statements.	It affects all businesses.
IAS 20 Accounting for Government Grants and Disclosures of Government Assistance	**Government support schemes** An entity that has benefited from government assistance need to consider the disclosure requirements in IAS 20. In particular, it should disclose the nature and extent of the government grants recognised and provide an indication of the other form of government assistance from which it has benefited. Any unfulfilled conditions and other contingencies attaching to the government assistance should also be disclosed.	All entities receiving government grants due to advent of COVID 19
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operation	As a result of the difficult economic environment, an entity may be considering or implementing restructuring plans such as the sale or closure of part of its business or the downsizing of operations (either temporary or permanent). Management should consider whether any long-lived assets need to be classified as held for sale or if any portion of its business qualifies for presentation as a discontinued operation.	All businesses mainly small businesses or those in the areas of travel, leisure & hospitality and aviation, who are in financial difficulties.
ISA 700 Forming an Opinion and Reporting on Financial Statements	**Potential impact on audit, an auditor's report** COVID 19 may bring new challenges could lead to certain implications in the auditor's report which may include:	Depending on an entity's specific circumstances.

	• Reporting of a new Key Audit Matter (KAM) in response to additional audit work necessary as a result of the outbreak. • Addition of a material uncertainty in relation to going concern paragraph, where relevant. • An emphasis of matter paragraph relating to a significant uncertainty arising from the outbreak. • A qualification or adverse opinion in respect of inadequate disclosures in the financial statements.	
Section 221 of the Companies Act 2001 and Guideline on Public Disclosure of Information issued by the Bank of Mauritius	Annual reports supplementing the financial statements should provide an appreciation of the state of the company's affairs. Also, financial institutions licensed by the Bank of Mauritius are required to include in their annual report a Management Discussion and Analysis which contains financial review and forward information and projections. An entity could discuss in the above reports the material quantitative and qualitative impact of COVID-19 on its business.	It affects all businesses and more specifically financial institutions licensed by the Bank of Mauritius.

PIEs will have to consider regulatory updates and monitor the impact of COVID 19 on their financial reporting taking into consideration the requirements of IFRS.

Bearing in mind this situation is constantly moving, PIEs must make up to date assessments and ensure all judgements made are current and based on the information available at the date the financial statements are authorised for issue.

Also, with the advent of the COVID 19 crisis, there may be additional accounting and disclosure implications for the entities. FRC will continue its annual report review exercise for PIEs taking into consideration the effect of COVID 19 on their operations and financial reporting disclosures.

Financial Reporting Council
05 May 2020