Agenda

- IFRS update
  - IFRS for 2020 and beyond
- Covid-19
  - Potential impact on 2020 IFRS financial statements
IFRS update
IFRS for 2020 and beyond
### 2020 IFRSs endorsed in the EU

#### Narrow-scope amendments

<table>
<thead>
<tr>
<th>Amendments to References to the Conceptual Framework in IFRS Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments to IFRS 3: <em>Definition of a Business</em></td>
</tr>
<tr>
<td>Amendments to IAS 1 and IAS 8: <em>Definition of Material</em></td>
</tr>
<tr>
<td>Amendments to IFRS 9, IAS 39 and IFRS 17: <em>Interest Rate Benchmark Reform (phase 1)</em></td>
</tr>
</tbody>
</table>

#### Narrow-scope amendment

**Amendment to IFRS 16: *Rent Concessions (NB 2020 response to COVID-19)***
2022-2023 IFRSs *not* yet endorsed by EU

<table>
<thead>
<tr>
<th>IASB effective date</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Narrow-scope amendments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amendments to IAS 37 Provisions: <em>Onerous Contracts</em></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Amendments to IAS 16 Property, Plant &amp; Equipment: <em>Proceeds before Intended Use</em></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Amendments to IFRS 3: <em>Business Combinations</em></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><em>Annual Improvements 2018-2020</em></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Amendments to IAS 1 Presentation of Financial Statements: <em>Classification of Liabilities as Current or Non-current</em></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>New standard</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS 17 <em>Insurance Contracts</em></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

**ED 2019/7 General Presentation and Disclosures (amendments to IAS 1)**
Amendments to IFRS 9, IAS 39 and IFRS 17 – Interbank Offered Rate (IBOR) reform

**EU**

**Reform of IBOR, may impact financial instruments practice & accounting**

**IFRS**

**Reliefs i.e. in respect of hedge accounting**

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**2020 (phase 1)**

**2021 (phase 2)**
Amendments to IAS 37 - Onerous Contracts

unavoidable costs
(= cost to fulfil a contract) = incremental costs + allocated other direct costs = full direct costs

Economic benefits

Unavoidable costs

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Amendments to IAS 16 - Proceeds before PPE’s intended use

- Start activities (pre-production)
- Start intended use PPE
- Sale proceeds and related production costs in profit & loss
Amendments to IAS 1 - Classification of liabilities as current or non-current

Amendments could have a significant impact on classification of liabilities

Right to defer settlement

- ‘substance’ (before: ‘unconditionally’)
- exist at balance sheet date

For convertible debt only ignore conversion options classified as equity
Article 403 and possible impact of Brexit

Brexit

IMPACT

Article 403
Regulators enforcement priorities 2020

Covid-19

- IAS 1
- IAS 36
- IFRS 9
- IFRS 7
- IFRS 16
- Non-Financial Information (NFI) disclosures
- Application of the ESMA Guidelines in relation to APMs

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IFRS Update
General presentation and disclosures
ED IAS 1: Future re-shaping of financial statement presentation

Income statement key changes

- Newly defined, mandatory subtotals
- Allocation of income and expenses between four new major categories
- Presentation of analysis of operating expenses on the face, either by nature or by function – mixed presentation prohibited
- Columnar presentation of management performance measures (MPMs) prohibited
### Proposed income statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>×</td>
</tr>
<tr>
<td>Operating expenses (analysed by nature or by function as appropriate)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>×</td>
</tr>
<tr>
<td>Share of profit or loss of integral associates and joint ventures</td>
<td>×</td>
</tr>
<tr>
<td><strong>Operating profit and income and expenses from integral associates and joint ventures</strong></td>
<td>×</td>
</tr>
<tr>
<td>Share of profit or loss of non-integral associates and joint ventures</td>
<td>×</td>
</tr>
<tr>
<td>Income from investments</td>
<td>×</td>
</tr>
<tr>
<td><strong>Profit before financing and income tax</strong></td>
<td>×</td>
</tr>
<tr>
<td>Interest revenue from cash and cash equivalents</td>
<td>×</td>
</tr>
<tr>
<td>Expenses from financing activities</td>
<td>(X)</td>
</tr>
<tr>
<td>Unwinding of discount on pension liabilities</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>×</td>
</tr>
</tbody>
</table>
ED IAS 1: Future re-shaping of financial statement presentation

- Balance sheet key changes
  - New line items

- Cash flow statement key changes
  - Starting point
  - Elimination of options
  - New line items

- Notes key changes
  - New disclosure requirements

Covid-19
Potential impact on 2020 IFRS financial statements
Covid-19: various accounting issues

Accounting issues

Potential issues to be addressed for 2020 IFRS financial statements

– Rent concessions (i.e. reductions, deferrals)
– Deferral of loan payments
– Current/non-current classification of debts
– Accounting for government grants (wage costs subsidies; compensation for non-performed services)
– Impairment of non-current assets (i.e. goodwill)
– Presentation of expenses related to Covid-19
Rent concessions related to Covid-19

2020 Amendment to IFRS 16

Covid-19 related Rent Concession: waiver / reduction / deferral of lease payments

Lessor

Lessee

 Lease modification

Negative variable lease payments
Presentation of expenses related to Covid-19

Covid-19 expenses

Companies may incur costs (directly) related to Covid-19

IAS 1 Presentation in the income statement:
Only expenses that are incremental and directly attributable to Covid-19

Limited presentation possibilities
– Definition of ‘exceptional’?
– Presentation should fit in current structure of income statement
Presentation of expenses related to Covid-19 - example

Example income statement *(expenses by nature)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance recoveries from COVID-19 related claims</td>
<td>40</td>
<td>150</td>
</tr>
<tr>
<td>Other</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td></td>
<td>(120)</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td></td>
<td>(160)</td>
</tr>
<tr>
<td>Employee benefit expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary hazard pay to employees due to COVID-19</td>
<td>(70)</td>
<td></td>
</tr>
<tr>
<td>Other employee benefit expense</td>
<td>(180)</td>
<td>(250)</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td></td>
<td>(100)</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cleaning and sanitation costs incurred to prevent the spread of COVID-19</td>
<td>(30)</td>
<td>(80)</td>
</tr>
<tr>
<td>Other</td>
<td>(50)</td>
<td></td>
</tr>
<tr>
<td>Profit before income tax</td>
<td></td>
<td>440</td>
</tr>
</tbody>
</table>
Covid-19: impact on impairment assessment

Impairments

- Covid-19 may give rise to indicators of impairment of fixed assets at year end
- Even if no indicators, Covid-19 may impact impairment testing of goodwill
- Recoverable amount of a CGU or asset likely be impacted

Goodwill

Indefinite useful life intangible assets

All other assets within the scope of IAS 36

Annual impairment test

Test if indicators exist at the reporting date
## Traditional approach vs. ECF approach

<table>
<thead>
<tr>
<th>Component 1: $r_f$</th>
<th>Component 2: Risk-premium</th>
<th>Component 3: Uncertainty about the future CFs</th>
<th>Reflected in the discount rate</th>
<th>ECF approach</th>
<th>Reflected in the cash flows</th>
<th>Under ECF approach the discount rate excludes risks that are reflected in the cash flows to avoid double counting.</th>
</tr>
</thead>
</table>
Impact on projecting cash flows - example

Cash flows projections

**BEFORE COVID-19**
- **Upside**
- **Base case**
- **Downside**

90%

**AFTER COVID-19**
- **Upside**
- **Base case**
- **Downside**

50%
Impact on discount rate (WACC)

WACC is based on debt and equity

- Cost of Debt
- Risk Free Rate
- Sector Risk
- Risk Not in Beta

WACC may increase due to higher uncertainty

Impact Covid-19
Covid-19: available information

COVID-19 | Financial reporting
Resource centre on the financial reporting impacts of coronavirus.

Are assets being carried at appropriate amounts?
How should COVID-19 impacts appear in the income statement?
How should government assistance be accounted for?

...and many more

Thank you