How should companies assess COVID-19 events after the reporting date?

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Companies need to exercise significant judgement in determining which events after the reporting date are adjusting events.

What's the issue?

The COVID-19 coronavirus pandemic has evolved rapidly in 2020 and it impacts how companies evaluate and disclose events after the reporting date ('subsequent events'). Depending on a company's reporting date, the impacts of the COVID-19 outbreak could be adjusting or non-adjusting events.

Under IAS 10 *Events After the Reporting Period*, events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue require disclosure or possibly affect recognition and measurement in the financial statements. *[Insights 2.9.20, 2.9.30]*

IAS 10 identifies two types of events.

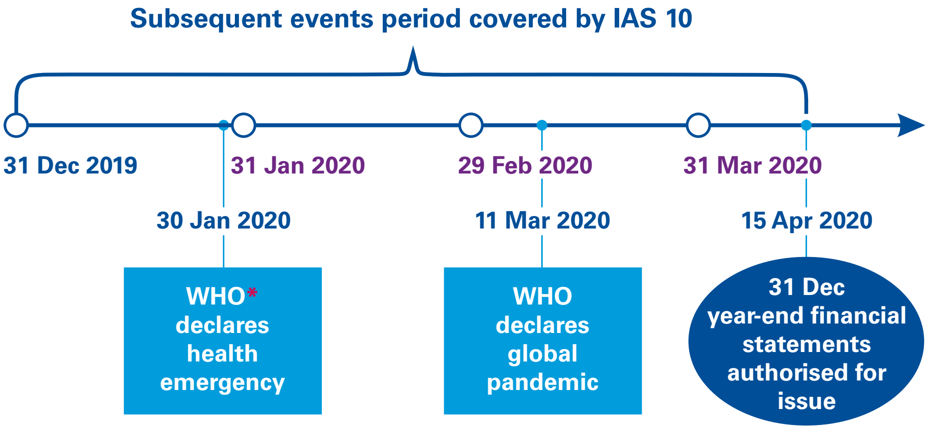
Events after the reporting date	Definition	Financial statement effects
Adjusting events	Those that provide evidence of conditions that existed at the reporting date	Adjust the amounts recognised in the financial statements
Non-adjusting events	Those that are indicative of conditions that arose after the reporting date	Disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made

Therefore, companies need to evaluate all events that occurred after their reporting date and assess:

- which of those events provide additional evidence of conditions that existed at the reporting date and for which financial statements need to be adjusted; vs
- which lead to disclosure only.

Getting into more detail

Considerations for assessing events after the reporting period



* World Health Organisation

Impact at reporting date(s)

31 December 2019 and 31 January 2020

For 31 December 2019 financial statements, the financial reporting effects of the COVID-19 outbreak are generally **non-adjusting events** (with the exception of going concern) because the significant changes in business activities and economic conditions occurred as a result of events arising after the reporting date – e.g. actions taken by governments and the private sector to respond to the COVID-19 outbreak.

Certain events did occur before 31 December 2019 – e.g. the Wuhan Municipal Health Committee issued an urgent notice about the virus on 30 December 2019 and cases were reported to WHO on 31 December 2019. However, the announcement by WHO that the coronavirus was a global health emergency was made on 30 January 2020 – i.e. after the end of a 31 December reporting period – and measures taken by many national governments followed this announcement. Many actions taken by governments and the private sector to respond to the outbreak also followed after 31 December 2019. Therefore, based on information about the outbreak that was reasonably available as at 31 December 2019, it is likely that market participants would have made either no adjustments to their assumptions, or only inconsequential changes, based on their assessments of the available information and associated risks as at that date.

The effects of the COVID-19 outbreak did not have a significant impact on global markets and share prices until after 31 January 2020. Accordingly, concluding that developments after 31 January 2020 provide more information about the circumstances that existed at 31 January reporting dates – and are therefore considered adjusting events under IAS 10 – will be challenging unless the COVID-19 outbreak had a significant impact on the company as at 31 January (e.g. the company had significant operations in China). If management determines that developments after 31 January 2020 are adjusting events, then this will probably be a significant judgement that would require clear disclosure, including the reasons why management concluded that these developments are adjusting events.

Subsequent periods – Including 29 February and 31 March 2020

For companies with reporting periods ending in February or March 2020, and calendar year end companies reporting in the first quarter of 2020, the COVID-19 outbreak is likely to be a current-period event that will require ongoing evaluation to determine the extent to which developments after the respective reporting date should be recognised in that reporting period.

As the impacts of the COVID-19 outbreak continue to evolve, capturing events that relate specifically to conditions that existed at or before the reporting date – i.e. adjusting events – will require careful assessment. To do that, companies need to carefully assess their specific facts and circumstances to identify events that generally represent the culmination of a series of conditions that existed at or before the reporting date.

Disclosures

For material non-adjusting events, companies are required to disclose the nature of the event and an estimate of its financial effect, or a statement that an estimate cannot be made. A non-adjusting event is considered material if it is of such importance that non-disclosure would affect the ability of the financial statements' users to make proper evaluations and decisions. *[Insights 2.9.30.30]*

As the date of authorisation moves further from the reporting date, users might expect that a company would have more information available to disclose an estimate of the financial effects of a non-adjusting event.

Actions for management to take now

When assessing the impact of COVID-19 events after the reporting date, management needs to do the following.

- Identify and consider all subsequent events until the date the financial statements are authorised for issue and determine whether these events are adjusting – i.e. they provide evidence of conditions that existed as at the reporting date or indicate that the **going concern** assumption is inappropriate.
- Disclose the nature and financial effects of events that are considered to be material, even if they are non-adjusting.

References to 'Insights' mean our publication **Insights into IFRS**

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