Telecommunications—Financial reporting implications of COVID-19

April 2020

Background

The effects of COVID-19 are significant and felt by various industries, including the telecom industry that currently plays a vital role in society, even more than before, in connecting people and businesses.

As the major part of the world works from home offices and the concept of virtually connecting with each other becomes a norm in these challenging times, telecommunications companies are now focused on network resilience and capacity management to meet increased demands from their users. Also they have moved to an online sales channel as shops and outlets are closing as well as reassessed capex related projects.

We have seen telcos playing a supporting role in various countries as the impact of COVID-19 unfolds. Certain telcos have provided additional data, free content, discounts, and offer new services to help track the spreading of the virus. Others considered (or are forced through government decrees) easing their contract termination and collection policies to help their customers manage temporary liquidity issues.

The European Securities and Markets Authority (ESMA) has emphasized that issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible. In doing so, they should consider both a qualitative and quantitative assessment on their business activities, financial situation, and economic performance in their 2019 year-end financial report where these have not yet been finalized, or otherwise in their interim financial reporting disclosures.

Most telcos have seen their overall top line surge as a result of increased network usage and an overall reduction in churn rates. In the long term, COVID-19 might accelerate growth and create additional cost-reduction opportunities to push more customers to the digital channel, away from the more expensive retail channels.

Having said that, there are items to focus on as part of financial reporting in the upcoming months. New business risks have been introduced and new accounting and reporting impacts should be considered.

What telcos should consider

Periodic disclosures

Telcos should consider their disclosure obligations regarding business risks related to the impacts of COVID-19 within the context of regulations and laws. Disclosures should be specific to individual circumstances, avoiding broad or generic language.

Disclosure within periodic filings to address these current—and evolving—events may be appropriate as a risk factor and/or as part of Management's Discussion and Analysis of Financial Condition and Results of Operations. Telcos should consider similar disclosure in the relevant sections of interim filings, including material changes in financial condition, if any. A company's normal disclosure controls and procedures should be applied to the reporting of this information.

While not exhaustive, the following table provides example disclosure considerations related to business risks. For telecommunications companies, those risks are primarily around business continuity, the ability to deliver and scale customer services, and certain financial exposures.

Business risks

Business risk	Disclosure considerations
Operations	— The ability to continue to provide reliable and secure services during periods of peak demands and minimize chances for network outages. — The ability to scale and continue to operate services outsourced to third parties and/or to other countries that are (also) subject to the impact of COVID-19 (e.g., call centers where employees need to be able to provide customer services from home). — Supply chain and the ability of suppliers to continue to deliver network maintenance, network components, and communication devices. — The need to continue to comply with privacy laws and regulations, particularly as it relates to newly introduced COVID-19 tracking applications. — Increase in cybersecurity risks also as more digital channels are being utilized. — Delay of rollout of certain capex projects, which might negatively impact business operations and/or the ability to introduce new services in the short to midterm. — Business continuity insurance and recoveries (Service Level Arrangements) to be reconsidered.
Customer	— Ability to continue and scale new services/devices to customers through different sales channels as telcos are adapting to increased online sales channels.
Finance	— Slowdown in B2C equipment sales due to lower consumer confidence, and deferral of introduction of new smartphones along with reassessment of inventory provisions. — Slowdown in roaming revenues due to (overseas) travel restrictions. — Claims resulting from minimum purchase commitments entered into (e.g. smart phone suppliers). — Claims from advertisers as distribution of content gets postponed or might not get distributed at all. — Increased risk for bad debt and expected credit losses, particularly as it relates to subject matter expert (SME) customers and customers in B2B segments hardest hit by COVID-19 (e.g., airline, tourism). — Impact on valuations assumptions for intangibles and future cash flow forecasts due to above.

Accounting and financial reporting impacts

COVID-19 effects	Relevant accounts/ disclosures	Accounting guidance	Financial reporting considerations
General	— Going concern — Subsequent events — Risks and uncertainties — Disclosures	— ISA 570 — IS Alert 2020/03 — IAS 10 — FASB ASC Topic 205-40 — FASB ASC Topic 855 — FASB ASC Topic 275	— Update risk assessment and associated Key Audit Matters and Critical Audit Matters. — Under IFRS standards, a company's management is required to assess a company's ability to continue as a going concern. — When management assesses the company's ability to continue as a going concern, it will need to consider the current economic uncertainty and market volatility caused by the COVID-19 situation, more in particular the impact on supply chain as well as liquidity.
Introduction of free and new services; changes to customer lifecycle	Revenues	— IFRS 15 — ASC 606	— The accounting for free, new, and modified services should be assessed under the existing revenue recognition policies. — Where there is a likelihood of changes to the customer lifecycle, the period of amortization for capitalized cost (e.g., subscriber acquisition cost capitalized on portfolio basis) needs reconsideration.

COVID-19 effects	Relevant accounts/ disclosures	Accounting guidance	Financial reporting considerations
Introduction of revised collection and disconnect policies	Receivables/bad debt	— IFRS 15 — IFRS 9 — ASC 606 — ASC 326	— Assess impact on revenue recognition of changing collection and/or disconnect policies, if any, and the general expectation that cash collections will deteriorate. This applies in particular to B2B SME clients and B2B clients hardest hit by COVID-19 (e.g., airlines, tourism). — Assess impact on expected credit loss models.
Slowdown of revenues in certain business segments and increased volatility	Goodwill	— IAS 36 — ASC 350	— While as a result of COVID-19, data/voice usage has increased and overall revenues are expected to go up, certain revenue streams and cash flows could decrease (e.g., retail equipment sales, B2B installation revenue, and roaming). The effect of COVID-19 should be considered in budgets and future cash flow forecasts. — The impact of COVID-19 can be an impairment triggering event and should be assessed under the existing impairment guidance. — Telcos should consider and reflect the increased volatility and uncertainty in their impairment models.
Slowdown in customer equipment sales	Inventory/ allowance for slow moving stock, contingencies	— IAS 2 — IAS 37 — ASC 330 — ASC 450	— Lower confidence in the economy could result in customers delaying their purchase of new smartphones. This could result in lower turnover rates and an increased aging of device inventory. — Inventory provisions should be considered in view of increased aged phone inventory. — Assess impact of lower sales on minimum purchase requirements.
Cancellation or delay of distribution of content/ advertising	Contingencies	— IAS 37 — ASC 450	— Assess impact of advertising commitments entered into with clients. — Assess impact on (license) fees paid towards content providers.
Possibility of onerous contract in B2B segment	Provision and contingencies	— IAS 37 — ASC 450	— If due to network outage or due to the inability to source inputs (e.g., equipment or communication devices) because of delays due to shutdowns, a particular revenue contract becomes onerous, then an assessment should be done on the overall contract for possible provision. — In case of turnkey B2B communications infrastructure contracts (e.g., ICT), there is a possibility of exposure to potential litigation arising from force majeure claims not being accepted.
Deferrals of ongoing and/or planned capital expenditure	Prepayments/ Work in progress/ contingencies	— IAS 28 — IAS 36 — IAS 37 — ASC 323 — ASC 360 — ASC450	— Impairment indicators should be considered. — Assess financial impact on contractual arrangements with suppliers.

COVID-19 effects	Relevant accounts/ disclosures	Accounting guidance	Financial reporting considerations
Suspension of capitalization of borrowing costs	Borrowing costs	— IAS 23 — ASC 835	— If there is a significant delay in sourcing the material for a qualifying asset, then telcos should consider the suspension of the capitalization of borrowing costs.
Employee compensation/ paid leave/PTO policies	Employee provisions/ annual leave and employee entitlements	— IAS 37 — IAS 19 — ASC 450 — ASC 715	— Entities need to reconsider employee related liabilities that might be subject to change as a result of new PTO policies, changes in paid leave arrangements, bonus programs and roll over policies. Such changes could significantly impact duration assumptions and employee related liabilities.
Receipt of government subsidy or grant	Government grants and disclosure of government assistance	— IAS 20	— For new stimulus related grants (if any), telcos should consider the terms and conditions of the grant and determine the appropriate accounting. — Telcos should consider appropriate disclosures in the year end or interim financial report.
Impact on control environment			— Telcos tend to have a significant number of automated key controls in their business operations that are not necessarily impacted by COVID-19. — The effectiveness of certain manual key controls, however, could be impacted during lockdowns as people work from remote locations. This also applies to manual key controls at shared services centers in remote locations impacted by COVID-19.

Evolving information

The potential global and economic impacts of COVID-19 continue to evolve rapidly. Telcos should monitor the situation as changes in circumstances may require additional or revised disclosure in current and future filings. Disclosures should include material, relevant information for investors as of the date of the periodic filing.

Companies are encouraged to maintain close communications with their board of directors, external auditors, legal counsel, and other service providers as the circumstances progress.

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