



The Journal is running a series of updates on IFRS, IAS, IFRIC and SIC. In this issue, Mr. Mohammad Samsul Arefin ACMA (UK), CGMA, FCMA has taken the responsibility to update the reflection on some latest pronouncements by IASB in their website.

Mr. Arefin has been working as Head of Internal Audit & Compliance in RAK Ceramics (Bangladesh) Limited.

IFRS Update

The International Accounting Standard Board (IASB) published respective updates on its relevant standards and other undertakings during last 2 months (September – October 2020). Some important updates are as follows:

Amendments to IFRS 16 endorsed by European Union

On 9 October 2020, recent amendments to IFRS 16 COVID-19 Related Rent Concessions were endorsed by the European Union. The amendments were published in the Official Journal of EU on 12 October 2020. The amendments were issued by the IASB on 28 May 2020, however, had not been endorsed by the European Union until this point in time.

BACKGROUND:

On 28 May 2020, the IASB issued amendments to IFRS 16, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19. The global pandemic has resulted in many different types of concessions being agreed between lessors and lessees, including rent deferrals, rent abatement/forgiveness and many other types of relief. The IASB decided to amend IFRS 16's requirements for lessees to simplify the lessee accounting requirements for rent concessions.

THE AMENDMENTS – LESSEES:

IFRS 16 has been amended to:

- Provide lessees with an optional exemption from the requirement to determine whether a COVID-19-related rent concession is a lease modification; and
- Require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications.

LESSORS:

The IASB did not amend the accounting requirements for lessors. Despite every concession provided to a lessee having a corresponding effect on the lessor, the IASB noted that the circumstances differ for lessors. In addition, any changes made to lessor accounting could have had unintended consequences because they could have introduced differences between the accounting for lease and non-lease components. Therefore, lessors must apply the existing requirements of IFRS in accounting for rent concessions.

EFFECTIVE DATE:

Annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020.

ACCOUNTING IMPACT:

Significant optional operational relief for lessees in accounting for modifications to lease contracts as a consequence of COVID-19.

Applying IFRS standards incorporating the impact of COVID-19

29 October 2020

Mary Tokar, member of the IASB and Technical Staff member Sid Kumar provide an overview of some financial reporting considerations for preparers, auditors, investors and regulators as they tackle the complexities associated with covid-19 induced disruptions. The article draws on the views of the interdisciplinary panel on Applying IFRS Standards in 2020 – Impact of COVID-19, which was convened at the IFRS Virtual Conference 2020 in September. The panel focused on:

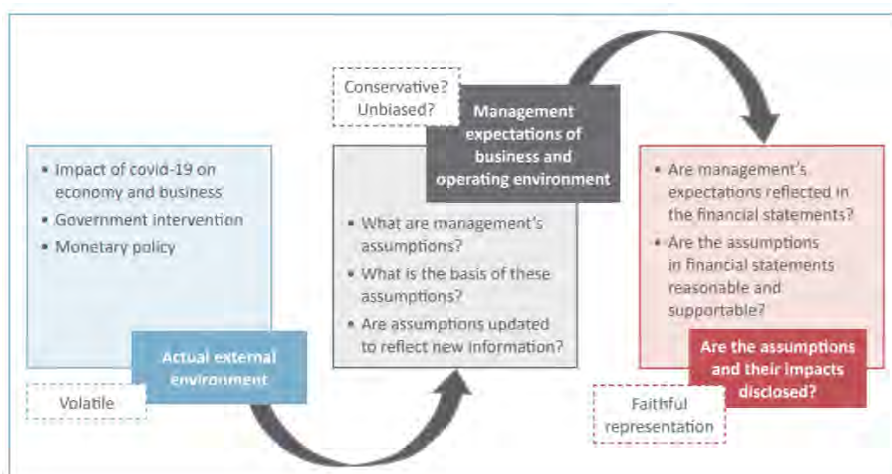
- what entities need to consider when developing assumptions in preparing financial statements in times of heightened uncertainty; and
- what information to disclose about the assumptions used.

The key highlights from the article are as follows:

Challenges associated with frequently changing expectations:

Changes in the external environment (for example, new lockdown measures, or relaxation of such measures) are likely to trigger updates to management's operating plans. Frequent changes in expectations also create a heightened demand from users for up-to-date information. Management and auditors may be anxious about preparing and auditing the financial statements in such circumstances. Panel members noted that management should take ownership of the estimates used in the financial statements; they also expect that management has robust processes to provide appropriate evidence and bases for these estimates. The following chart shows an expected approach when incorporating changing expectations in financial statements.

Incorporating changing expectations:



What assumptions should an entity use in a time of heightened uncertainty?

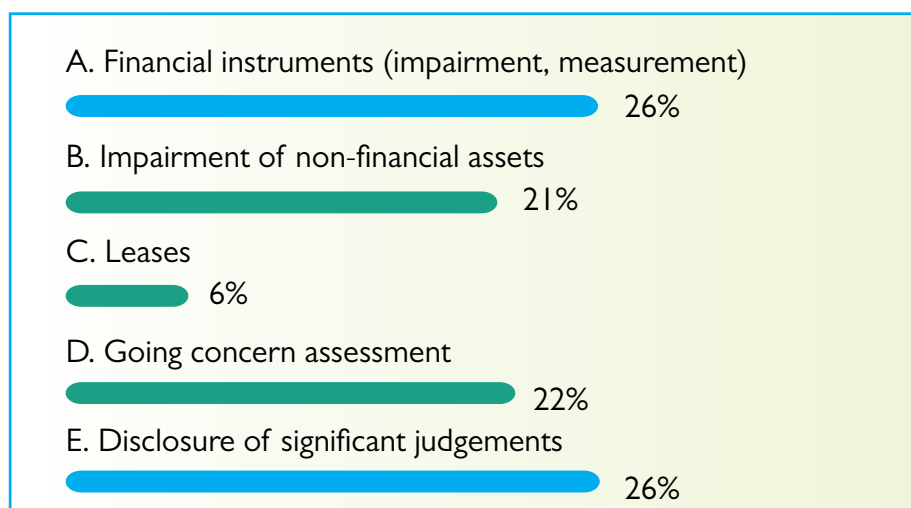
Panel members highlighted expectations that assumptions be:

- guided by faithful application of relevant standards;
- based on the best available, reasonable and supportable information;
- consistent with management's rationale for the entity's operations, prospects and viability; and
- derived from a thorough and well-governed process with appropriate oversight from the audit committee and the board of directors.

What about the risk that actual outcomes could be different from the estimates?

Some national standard-setters have stepped in to provide non-authoritative guidance to support entities in developing their best estimates; with greater user needs for information, standard-setters are also reminding entities to disclose their assumptions. Panel members noted that an actual outcome that differs from an estimate is likely in times of heightened uncertainty and does not mean the estimate was an error. The panel also highlighted the importance of updating and disclosing changes in key assumptions or disclosing the continuity of the old assumptions.

Result of polling question on the financial reporting issues that conference attendees found most challenging to deal with because of covid-19:



Disclosure requirements in IFRS Standards

The panel discussed disclosure requirements about assumptions and estimates for both annual and interim financial statements. For entities that report at the end of the calendar year, the impact of covid-19 was first a reporting issue in their interim financial statement. IAS 34 Interim Reporting requires entities to disclose significant changes to assumptions and the effect of changes on the financial statements in comparison to those reported in the previous annual period.

What information about assumptions should an entity consider disclosing in the financial statements?

Panel members highlighted their expectations, which included disclosing when relevant:

- key assumptions used;
- changes in assumptions from the last reporting period;
- the impact of changes in assumptions from the last reporting period on the amounts in the financial statements;
- the use of judgement (for example, other assumptions management considered and reasons it opted not to use them); and
- sensitivities to key assumptions

Top tips from the panel for reporting in times of heightened uncertainty:

Clarity	Transparency	Context
<ul style="list-style-type: none">■ Tell it like it is■ Highlight changes from year-end	<ul style="list-style-type: none">■ Consistency with basis for management decisions■ Focus on the big picture and whether the short term is indicative	<ul style="list-style-type: none">■ What assumptions have been made■ Level of uncertainty in assumptions■ Update for most current information

Articles Summary:

This article highlights some challenges in preparing, auditing, and analyzing the financial statements in a time of heightened uncertainty.

It is difficult to predict when the covid-19 induced economic crisis will end, and until then, entities will have to continue to operate in an uncertain environment. Unending uncertainty creates a greater need for clear, transparent, and contextual information in the financial statements.

Meeting Updates:

The International Accounting Standard Board met remotely on 27–29 October 2020 to discuss on following matters:

- Board work plan update (Agenda Paper 8)
- 2020 Agenda Consultation (Agenda Paper 24)
- Equity Method (Agenda Paper 13)
- IFRS Taxonomy (oral update)
- Maintenance and consistent application (Agenda Papers 12–12E)
- Dynamic Risk Management (oral update)
- Extractive Activities (Agenda Paper 19)
- Disclosure Initiative—Subsidiaries that are SMEs (Agenda Paper 31)
- Management Commentary (Agenda Paper 15)

Source of Information:

IASB website
BDO Global