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IN THIS ISSUE

Abu-Ghazaleh: Strategies to Confront the Greatest Global Depression in History

AMMAN – Economic expert and prominent Arab businessman HE Dr. Talal Abu-Ghazaleh published a set of recommendations that could help counter the Coronavirus crisis economic consequences, expected to cause the worst global recession in history.

In a published paper Dr. Abu-Ghazaleh affirmed that "the path to exit the crisis is going to be long, arduous and painful; therefore we need to discuss and put forward more ideas."

He added, "There is no doubt, the COVID-19 will remain a part of our life for a long time, and consequently, its negative economic effects would also continue. Hence, we should not wait for the epidemic to end before we start to take the necessary precautions to confront its serious economic repercussions."

Dr. Abu-Ghazaleh called on every country to prepare and develop appropriate plans to fight this great challenge. He referred to an International Monetary Fund (IMF) report affirming that "exiting the crisis depends on relevant measures taken by each country."

Dr. Abu-Ghazaleh also urged each country to establish an advisory council that includes competent national experts to confront the Great Depression; to assess the situation and submit its report to the head of state to decide on the measures to be taken accordingly.

Dr. Abu-Ghazaleh offered a set of suggestions to the prospective advisory councils to examine and deliberate on in each country's needs, including:

- No new taxes that might hinder economic recovery should be imposed; while taxes on new investment projects in the fields of agriculture and medicine should be abolished.
- Top priority should be to transform into a digital-based management, including in trade, in services and in education.

- Adoption of policies that may help stimulate the Gross Domestic Product (GDP), which will create new job opportunities and broaden the tax base.
- Adoption of programs specialized in recruiting the unemployed at the small businesses, while the government should give funds to these businesses to pay the unemployed, instead of directly offering salaries to people while staying in their homes.
- Adoption of an administrative reform scheme in parallel with an austerity program to reduce public expenditures and to restructure government sectors.
- Securing the freedom of movement of funds.
- Restructuring of energy policies
- To assess the privatization of government institutions, to ensure if increase in profitability.
- To adopt policies and procedures to control price hikes.
- To launch programs to support the tourism sector.

The Implications of Covid-19 on the Financial Statements and Disclosures

For the financial statements that will end during 2020, the impact of Covid-19 must be reflected when preparing the financial statements.

The effects of the Coronavirus are widespread and its impact has touched most sectors. Covid-19 affected companies and entities differently, as it was direct and significant on some of them, while it was indirect on others, but actually all entities were affected by the virus. The financial statements, as well, will be affected in the same way. Moreover, the situation is changing rapidly, and this requires continuous revision of the estimates, predictions, and assumptions. What prevailed, for example, two weeks ago, is most likely inapplicable now.

This technical publication addresses the following items:

- Financial Instruments and the Measurement of Expected Credit Losses (ECL);
- Hedge Accounting;
- Disclosures of Financial Instrument Risk.
- Payment and Classification of Debts;
- Guarantees;
- Impairment in Value;
- Inventory;
- Measurement of the Defined Employee Benefits Obligations;
- Benefits of Employees' Service Termination and New Benefits;
- Share-based Payments;
- Revenues;
- Fair Value Measurement;
- Leases;
- Income Tax Accounting;
- Provisions;
- Insurance Claims;
- Government Grants;
- Translation of Foreign Currencies;
- The Implications on Disclosures in Accordance with IAS-1;
- Subsequent Events;
- Going Concern;
- Interim Financial Statements

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Some of the effects on the items of financial statements whose financial periods end during the year 2020 include:

Financial Instruments and the Measurement of Expected Credit Losses

- According to IFRS 9, financial instruments, expected Credit Losses (ECL) shall be recognized based on the information about previous and current events, as well as predictions about future economic events. This means that future expected events shall be considered in measuring the ECL based on the probability of occurrence. In evaluating future events, the implications of Covid-19 shall be considered along with the important support provided by governments.
- The assumptions that were used up till now to calculate the ECL may not be applicable in light of the current circumstances, so entities should not apply the previous methodology in a mechanistic manner.
- The ECL provision applies to several accounts such as trade receivables, loans, debt related securities, contract assets, assets arising from costs of implementing the entity's contracts with clients, financial guarantee contracts, and loan commitments.
- Management of entities should consider the method of calculating the ECL (ECL for 12 months, or lifetime ECL), as well as the method of calculating the ECL itself (i.e., the amounts subject to loss and the risk of non-payment).
- The financial assets subject to ECL provision calculations require calculating the possibility of non-collection for a 12-month period (unless the simplified method is used). The Covid-19 crisis may have a significant

impact on such calculations. The Covid-19 crisis might also cause a significant increase in credit risks, which requires the calculation of lifetime ECL.

- The calculation of future ECL provision is affected by the increased probability of borrowers' default, and the decrease in the value of the guarantees they provided.
- The calculation of the provision is also affected by the information about the impact of Covid-19 that will be available after the date of the financial position, and indicates the circumstances which prevailed at that date. It is recommended to provide complete disclosures about the events that were considered even if these events do not cause a modification in the estimates.

Hedge Accounting

The hedge effectiveness shall be assessed initially and continuously oneach reporting date, or if the circumstances significantly change. The current volatile market conditions may require entities to re-arrange hedging or cease hedge accounting if the economic relations no longer exist or if these relations are dominated by credit risks. Moreover, if the occurrence of an expected hedge transaction is not highly expected (e.g., inventory purchase or sales), the hedge accounting shall be discontinued in the future.

Disclosures of Financial Instrument Risk

Due to the rapid changes in the economic conditions, the degree of risk exposure may vary (credit, liquidity, and market), so management may need to provide more disclosures about the concentration of risks. In providing disclosures about sensitivity analysis, managements may need to use wider range for the probability of change in the indicators and their trends.

Payment and Classification of Debts

Due to the hard economic conditions, many lenders have deferred the payment installments and other financing terms including the interest rate. This may affect the value of the provided financing which may result in profits or losses. The classification of debts will also be affected, as current or non-current items.

The finance in gcovenants stipulated in the agreements may not be met, the debt as a whole would be outstanding if lenders did not waive on-compliance cases.

Some lenders provide full exemption of debts, this requires managements to determine the proper timing to derecognize the debt, in the statement of financial position, and the appropriate accounting treatment thereof.

Guarantees

the entity that provided guarantees for others shall consider the impact of the crisis on those entities. However, and based on the circumstances, entities may need to recognize some additional liabilities related to these guarantees.

Impairment in Value

IFRS require entities to conduct impairment tests for the value of their assets if there are indicators about impairment in their value. Moreover, impairment tests should be conducted for goodwill and intangible assets with indefinite ages once annually at least.

Entities may also need to recalculate the value in use due to changes in expected cash flows and interest rates.

All the assumptions and expectations that were previously used by an entity to estimate the impairment of value should be reconsidered in light of the changes in the circumstances as a result of Covid-19 and its impact on the entity's performance, expected cash flows, and the applied discount rates. The measures taken to contain the implications of the crisis should also be considered.

The fair value of an asset minus the costs of disposal may also be impaired, and the active markets for some assets may disappear.

Here are some indicators of the impairment caused by Covid-19:

Investments accounted for using the equity method

- Significant financial difficulties for the investee company;
- Non-compliance or inability to implement the contracts and agreements (e.g., loan agreements);
- Bankruptcy or restructuring of the investee company; and
- Significant negative changes in the economic or legal environment in which the investee company operates.
- Property, plant, and equipment and intangible assets (except goodwill)
- Change in the extent or method of using the assets;
- Significant negative changes in the work environment or the laws that may impact the value of an asset;
- Decrease in the market's interest rate causing impairment of the value in use; and
- Decrease or cessation of demand on the services provided by the asset.

In addition to the above, the existence of doubts about the ability to continue as a going concern is considered an indicator for impairment for most of the assets.

Goodwill

Goodwill shall be annually tested for impairment; Covid-19 may impact goodwill as follows:

- Negative significant changes in the work environment, laws, or regulations;
- Loss of key employees;
- Significant impairment in the value of a group of assets;
- Impairment of goodwill in an investee company; and
- Significant decline in the company's share price, which makes its market value less than its book value.

Inventory

Due to the circumstances arising from Covid-19, the inventory of an entity may be exposed to various loss factors such as damage, obsolescence, price reduction, or interruption of supplies.

Accordingly, managements of companies should consider whether there is a need to adjust the carrying amount of inventory to be equal to the net realizable value in accordance with IAS 2, inventory. The estimation of the net realizable value in light of the current volatile circumstances, accompanied by uncertainty, is difficult.

In case a company stopped or reduced its production significantly for a period of time, the fixed costs relevant to production shall be charged to gains or losses, not to the cost of inventory.

Measurement of the Defined Employee Benefits' Obligations

IAS 19 (Employee Benefits) requires setting some assumptions in measuring this liability, such as interest rates, salary increases expectations, and the employees' turnover rate. ISA 19 also requires, in case of the existence of assets for the employee benefits plan, the measurement of the value of such assets to reach the net liability.

Due to the sudden collapse in the markets and the decrease in interest rates as a result of Covid-19, entities shall re-estimate these assumptions. As liabilities are prepared using actuarial evaluation, managements of entities shall consider the need to modify these assumptions or even to re-conduct a comprehensive actuarial assessment.

Employees' Termination Benefits and New Benefits

Due to the economic difficulties, some entities will reduce the number of staff and terminate their services, so managements should consider when and how an entity will recognize the liabilities and expenses in relation tothose actions in accordance with the requirements of the standards.

As a result of Covid-19, some entities provide new benefits for their employees that were not previously provided, this creates liabilities and expenses. Managements should consider how to account for such liabilities and expenses. The accounting treatment of such items depends on whether those benefits are relevant to past services, or they are paid when the service is provided.

Share-based Payments

A change may occur in the assessment of whether the vesting conditions (for example, the number of years of service at a company) are met regarding the arrangements of share-based compensation plans. A company may also decide to modify or cancel these plans; this requires re-accounting for such plans in accordance with the guidelines set forth in IFRS 2,share-based payments.

Revenues

- If contracts with clients contain a variable consideration, such as discounts, an entity's management shall consider whether its previous estimates, in this regard, are still applicable. IFRS 15 provides detailed guidelines regarding the variable consideration. Due to the current circumstances, it is expected that companies will modify their promotional offers and discounts.
- If an entity sells its products and services in areas that are severely affected by Covid-19, it shall consider the possibilities of collection. In the absence of such information about these possibilities, a company might not be able to recognize revenues except upon receipt of the consideration and after it becomes non-refundable.
- Contracts with clients may be subject to loss, or to profitability decrease, managements of entities shall consider whether the final result of the contract is an onerous contract, this situation requires the recognition of a corresponding liability in accordance with IAS 37.

Fair Value Measurement

The fair value of an asset or a liability (such as some financial instruments, investment property, some property, plant and equipment) is measured on the date of financial reporting in accordance with the applicable IFRS. When the fair value measurement is based on a quoted price in an observable market, the quoted price on the date of the financial report shall be used. Changes in the market prices after the date of financial reporting are not reflected in the assessment of assets.

Due to Covid-19, price fluctuations in different markets increased, this directly affects the measurement of fair value in case it is determined based on the market price (for example, securities exchanged in an active market). The effect might also be indirect, if the fair value is estimated based on inputs derived from a volatile market. The fair value estimation process will require more judgment and estimation, specifically regarding the estimations based on unobservable inputs (the third level of the fair value hierarchy). In some cases, the dependence on unobservable inputs will increase because the observable inputs are no longer available.

Leases

There is often a need to calculate an incremental borrowing rate in leases, the calculation shall be conducted in accordance with the requirements of the standards. Managements of entities may need to recalculate this price in light of the implications of the Corona crisis on interest rates and credit risks relevant to an entity.

Covid-19 may result in modifications in the terms of contracts between lessees and lessors. In this case, both the lessee and the lessor shall consider how to account for these modifications and whether the change is considered a modification on an existing contract, or it forms a new lease. A new incremental borrowing rate shall be determined for the new contract.

The changes in markets, interest rates, and terms of contracts may cause impairment of right-of-use assets.

For more details about the implications of the Corona crisis on leases, please refer to the IFRS publications sued on April 10, 2020 titled “IFRS 16 and Covid-19”

Income Tax Accounting
Regarding the deferred tax assets, an entity may need to reconsider the assumptions relevant to the potential future recovery of these assets. Managements may determine that it is no longer suitable, according to IAS 12, income taxes, to recognize deferred assets because they might not be recoverable in the future.

Regarding the deferred tax liability, the effect of assets impairment should be considered on the temporary taxable differences. Because dividends plans of subsidiaries may be affected by the crisis, the recognition of deferred tax liability regarding the undistributed profits shall also be reconsidered.

Entities in some areas are granted tax exemptions or deferrals, and managements should consider their entitlement of such exemptions along with their effect on tax provisions. Tax exemptions granted by governments should be assessed in according with IAS 20 in addition to IAS12.

Provisions
IAS 37, provisions, contingent liabilities and contingent assets, requires the recognition of provisions only if there is present obligation on the entity, and that obligation will likely require outflows of resources to be settled, and the entity is able to make estimates reliably. Therefore, provisions for managements actions related to the virus should be created only if such actions create obligations that need economic resources to be settled, and it is a possible to estimate them reliably. For instance, provisions for restructuring plans are not recognized unless detailed official plans are announced, and those official plans create real expectations, among those affected by the plans, that the plans will be implemented.

IAS 37 does not permit the creation of provisions for future operational costs. However, it requires the recognition of losses resulting from onerous contracts. The standard also does not permit the recognition of contingent assets unless the recovery potential is virtually certain.

IAS 37 also requires the disclosure of the nature of the liability and the expected timing for using the economic resources.

Insurance claims
Managements of entities shall consider whether the losses resulting from Covid-19 are covered under insurance policies. According to IAS 37, insurance benefits are only recognized when their collection is virtually certain, and this happens when the insurance company accepts a virtually certain claim, and the entity’s management is convinced that the insurance company is capable of meeting its obligations. They will be disclosed as contingent assets when it is apparent that the entity is entitled to the benefits.

Restructuring plans
Some entities may restructure their operations by ceasing or selling some activities. Managements of companies should pay attention to the need of classifying some of its long term assets as non-current assets held for sale, or the need to present some of their activities as discontinued operations in accordance with the terms of IFRS 5, non- current assets held for sale and discontinued operations.

Government Assistance
Many governments took initiatives to provide assistance and aids to companies in order to mitigate the implications of the Corona crisis, such as tax exemptions or payment of some wages and salaries of employees, etc. Managements of entities shall consider whether those grants meet the recognition criteria of government grants

according to IAS 20, Accounting for government grants and disclosure of government assistance.

Translation of foreign currencies

practically, it is common for companies to translate the items of the income statement in foreign currency using the average prevailing rate of exchange during the period, given that this rate will not differ from the spot exchange rates. However, given the huge fluctuations in the exchange rates of some foreign currencies, this assumption may no longer apply in the current circumstances.

The implications on disclosures under IAS 1

Managements should consider the specific requirements needed in accordance with IAS 1 regarding the significant accounting policies, the significant judgments made by companies in the application of such policies, and the estimates that will likely affect adjustments to profits for the coming periods. All these disclosures are affected by Covid-19. There might be a need to increase the extent of disclosures relevant to uncertainty about the estimates.

Specific significant financial effects may arise due to of Covid-19, such as adjustments to impairment in value. In addition to the disclosures required in accordance with some specific standards, IAS 1 requires providing disclosures in the face of the income statement or within the notes to financial statements about the significant items of income and expenses. An entity may disclose additional line items in the income statement or additional sub totals, if necessary, to enhance the understandability of its performance. Also, there's a general requirement to provide disclosures about information relevant to the understanding of financial statements, which are otherwise not disclosed.

In addition to the above, there are disclosure requirements related to an entity's going concern, and the importance of management's assessment of the company's ability to continue as a going concern.

Subsequent events

Financial statements that ended on December 31, 2019

As explained in the circular of the Professional Development Department dated 4/4/2020, the impact of Covid-19 is generally considered as a subsequent non-adjusting event for the year ended on December 31, 2019.Accordingly, these implications will not affect the recognition and measurement of assets and liabilities in the financial statements of the entity. However, entities should consider whether to present additional disclosures to explain the implications of Covid-19in the subsequent period. Generally, disclosures shall be provided about subsequent events that did not exist on the date of financial reports, but significantly affected the assets and liabilities in the subsequent period, or that will have a significant effect on the future operations of the company. Entities shall disclose the following significant subsequent non-adjusting events:

A. Description of the nature of the events; and
B. Estimate of the financial impacts of the events, or providing explicit statement that the estimation cannot be done,

Entities shall consider the assessment of their ability to continue as a going concern, and shall adjust the financial statements accordingly.

Examples of non-adjusting events that require disclosures include:

- The plans set by managements to address the impact of Covid-19 and whether there is a significant doubt about going concern;
- Failure to adhere to financing terms, and whether there is a waiver thereof, or amendments to the terms and conditions of contracts and financing agreements;
- Supply interruptions;
- Assessment of whether some contracts have become onerous contracts;
- Announcing plans to stop some activities;
- Declaration, or application, of significant restructuring or downsizing;
- Significant changes in the prices of assets or exchange rates;

- Entering into commitments, obligations, or guarantees such as a significant collateral to related parties;

See the circular dated 4/4/2020 that includes links to professional publications issued by the AICPA, showing examples about the disclosures.

Financial Statements for the Periods Ending during 2020
as indicated in the circular of the Quality Control Department issued on 4/4/2020, regarding the financial statements ending during 2020, managements shall use estimates to determine the implications of Covid-19. Managements shall also consider the events that prevailed at the date of financial statements. If the management's judgments and estimates have a significant effect on the financial statements, this should be disclosed in accordance with IAS 1. If it was determined that Covid-19 represents an event that prevailed as on the date of financial reporting, and has a significant effect on the operations on or before the date of financial statements, the subsequent events that occurred after the date of the financial statements shall be accounted for as subsequent adjusting events.

The aforementioned circular includes links to professional publications which include examples of the disclosures in the financial statements.

Going Concern
IAS 1, Presentation of Financial Statements, states that themanagement is responsible for assessing the entity's ability to continue as a going concern on the date of financial statements. All forward looking information, and at least for 12 months subsequent to the date of financial reporting, shall be considered.

Managements shall consider several factors such as:
- Current and future profitability;
- Sources of liquidity, cash flows, debt repayment schedules, and alternative financing sources;
- Expectations for future revenues, especially in case of expecting significant decrease in demand for goods and services;
- Expectations about the length of the supply interruption or the cessation of operations.
- Expected subsidy and government's grants;

if a management found that an entity may be subject to liquidation, whether this is an obligatory action, or there is no realistic alternative but to do so, the continuity assumption will not be suitable. Accordingly, financial statements shall be prepared using another basis, the liquidation basis for instance. If there is a substantial doubt about the entity's ability to continue, the entity shall provide the appropriate disclosures about those doubts within the notes to the financial statements.

Whereas, the estimation about the entity's ability to continue as a going concern only takes into consideration a minimum period of 12 months from the date of financial reporting, entities shall consider all the events that occurred during the subsequent period to evaluate whether there is a substantial doubt about the entity's ability to continue as a going concern. This means that even if the subsequent events were considered as non-adjusting events, the entity shall consider them in assessing the going concern assumption. Entities should also disclose the events and circumstances that create substantial doubt about continuity. Entities should also disclose the judgments made by managements to conclude that the going concern assumption is still valid.

Examples of disclosures:
See the circular dated 4/4/2020 that includes links to professional publications issued by the AICPA, showing examples about the disclosures.

Interim financial statements
The above guidelines also apply to interim financial statements prepared in accordance with IAS 34. As indicated, many aspects of financial statements will be materially affected, which will require providing comprehensive

disclosures about the implications of Covid-19. Interim financial statements are usually used to update the information disclosed in the annual financial statements. However, IAS 34 requires providing disclosures in the interim financial statements that explain the important events and transactions needed to understand the changes that occurred in the financial position and the entity's performance since the date of the previous annual financial statements. This means that entities shall provide additional information to reflect the financial impact of Covid-19 along with the procedures taken to control such impacts. The disclosures shall be entity-specific to reflect the circumstances relevant to the entity per se. In addition to the disclosures required in accordance with IAS 34, an entity shall provide the following disclosures if they have a significant effect:

- The financial impact on the entity's financial position, financial performance, and cash flows, as well as the measures taken to control such impact;
- The important judgments taken by managements, which were not previously required, such as those related to ECL.
- Events after the end of the period.

IASB issues amendment to IFRS Standard on leases to help lessees accounting for covid-19-related rent concessions

The International Accounting Standards Board (Board) has issued an amendment to IFRS 16 Leases to make it easier for lessees to account for covid-19-related rent concessions such as rent holidays and temporary rent reductions.

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

IFRS 16 specifies how lessees should account for changes in lease payments, including concessions. However, applying those requirements to a potentially large volume of covid-19-related rent concessions could be practically difficult, especially in the light of the many challenges stakeholders face during the pandemic. This optional exemption gives timely relief to lessees and enables them to continue providing information about their leases that is useful to investors. The amendment does not affect lessors.

The amendment is effective 1 June 2020 but, to ensure the relief is available when needed most, lessees can apply the amendment immediately in any financial statements—interim or annual—not yet authorized for issue.