Responding to regulatory focus areas

Financial reporting under COVID-19 and the emerging economic recovery

- The Australian Securities and Investments Commission (ASIC) recently issued its focus areas for financial reporting under COVID-19 conditions. These are complemented by ASIC's frequently asked questions (FAQs)
- In June 2021, ASIC announced that it had reviewed 85 listed entities financial reports as part of its surveillance program for 31 December 2020, which focussed on entities and industries adversely affected by current conditions
- Impairment of non-financial assets, including goodwill and intangible assets, has historically received strong focus from ASIC. We anticipate that this will continue. For 31 December 2020 reports, ASIC made inquiries of 15 entities on 22 matters, of which 10 matters related to impairment and other asset values
- The impact of COVID-19 on local and global economies, combined with the uncertainties it creates, introduces significant challenges in preparing financial reports. It is important to provide clear disclosures of the impacts on the entity, the uncertainties the entity faces, and the significant judgements and estimates made in compiling the financial report. Appropriate documentation of these assumptions can assist in protecting both management and directors

> "As COVID-19 conditions continue to evolve, the quality of financial reports and related disclosures remain more important than ever for keeping investors informed."
>
> **Cathie Armour, ASIC Commissioner**

- Key updates to areas of focus relative to prior years include:
  - The impacts of changes in circumstances from prior reporting periods under COVID-19 conditions on asset values, provisions, going concern and on disclosures of key assumptions, risks, strategies, and future prospects
  - Implementation of the new guidance relating to the adoption of the IFRIC® Interpretation on Software-as-a-Service (SaaS) arrangements
  - An expectation of climate risk disclosures by listed entities in the Operating and Financial Review (OFR).

What are the top areas you should focus on for 30 June 2021?

The table below provides a summary of the ASIC focus areas, as well as our insights into these and other important areas for the June reporting season.

Going concern and subsequent events

Analysis	Considerations
Going concern It is important to carefully assess whether the current facts and circumstances may challenge the going concern basis of preparation. The assessment of whether an entity is a going concern is required up until the financial statements are authorised for issue. The Australian Accounting Standards Board and Auditing and Assurance Standards Board have issued a joint publication on the impacts of COVID-19 on going concern, and the related assessments.	• Disclosure is required when an entity exercises significant judgement in determining whether a material uncertainty regarding its ability to continue as a going concern exists. Potential disclosures include: – The events or conditions that indicate uncertainties exist and the severity of the entity's current financial position – Management's plans to mitigate the financial position and whether they are within management's control or subject to third party actions, the status of the plans and their interdependency – Feasibility of the plans or events that need to occur for the outcomes to be positive and why the outcomes are probable – Significant judgements made in reaching a conclusion that no material uncertainty exists – Other relevant information (e.g. contingent liabilities) – To the extent that a material uncertainty exists, a summary of the material uncertainty relating to the going concern assumption, and therefore that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.
Subsequent events Given the rapidly changing business environment, entities should carefully consider information that becomes available after the balance date, but before the financial statements are authorised for issue, to assess whether the financial statements should be adjusted or whether it reflects a change in conditions after the reporting date (and therefore disclosure is required).	• If non-adjusting events are material, the nature of the event and estimate of its financial effect should be disclosed. The estimate does not need to be precise and it is preferable to provide a range as to the impact rather than no quantitative information • Where the impact cannot be reasonably estimated, a qualitative description should be provided, along with a statement that it is not possible to estimate the effect.

Further information

ASIC FAQs: What are some factors to consider for assets, liabilities and going concern assessments?

Deloitte publication: What is the impact of COVID-19 on your going concern assessment?

AASB/AUASB publication: The impact of COVID-19 on Going Concern and Related Assessments

New restrictions and lockdown measures in various states and territories as of 30 June 2021 and their impacts on financial reports

As at 30 June 2021, almost 50% of the Australian population was in lock down across many states in response to cases of community transmission of COVID-19. Major population centres in New South Wales, Queensland, Western Australia and the Northern Territory were subject to stay at home orders of varying lengths, and other areas of those jurisdictions, together with other states and the Australian Capital Territory, were subject to restrictions on travel, border restrictions and/or varying public health measures. The 'travel bubble' with New Zealand was also temporarily suspended, with a partial relaxing with certain states and territories announced. In addition, Australia's vaccination progress was considered slow in comparison with other OECD nations and a number of state leaders were calling for a pause in repatriation of Australian nationals.

Many of the jurisdictions had announced support payments to businesses affected by lockdowns. In addition, in response to an earlier COVID-19 outbreak in Victoria, the Federal Government created an ongoing limited COVID-19 disaster payment for people affected by restrictions. The Federal Budget announced in May 2021 also contains a number of measures designed to support economic conditions (see our analysis of some of the accounting considerations). As at 30 June 2021, the Federal government had not enacted a scheme equivalent to the JobKeeper scheme in place in 2020-21.

As this situation and the measures in response were in place as at and prior to 30 June 2021, they must be taken into account in financial reporting at June 2021 in areas such as asset values, expected credit loss calculations and net realisable value assessments of inventories as of 30 June 2021. The broader impacts on economic factors such as consumer confidence and business investment will depend on the longevity of the outbreaks and restrictions, and the responses of governments to the developing situation. This may require scenario analyses considering the impacts of possible further restrictions, government responses and resultant economic conditions.

Although the initial restrictions were imposed prior to year-end, there is every possibility of new or extended restrictions or other related changes. It will be important to closely monitor subsequent developments and determine the impacts on the financial report (which may be limited to additional subsequent event disclosure). The impacts to consider include any potential further support measures from governments or third parties in response to the current or emerging situation.

Disclosure of uncertainties, key assumptions and sensitivity analysis will be important for users of financial reports, as well as information and explanations presented in the OFR. This may include disclosure of the extent to which the COVID-19 outbreak, resultant restrictions and government responses are factored into the determination of asset values and the estimate of the financial effect of subsequent events.

Solvency and going concern assessments

Assessments of solvency and going concern should be based on conditions existing at the date of authorising the financial report for issue, including the impact of all relevant events that have occurred up to that date and expectations of future events.

For more information, see the potentially analogous situation discussed in ASIC FAQ 2A: What was the impact of restrictions in Victoria and changes to JobKeeper on financial reports for periods ended 30 June 2020?

Impairment and other asset values

Analysis	Considerations
Non-financial assets, including goodwill and intangible assets The impacts of COVID-19 may be pervasive to an entity's impairment testing of non-financial assets under AASB 136 *Impairment of Assets*. The most challenging area of the impairment test is likely to be making reasonable and supportable estimates of cash flows. Users will be looking to the disclosures in the financial statements to understand the impact of COVID-19 on asset values. These disclosures should include a clear explanation of changes in key assumptions between reporting periods under COVID-19 conditions as circumstances change or become clearer.	*Cash flows* • Cash flow assumptions must be reasonable and supportable • Probability weighted cash flows that consider a range of possible scenarios on the expected speed of recovery (including, for example, assumptions around the COVID-19 outbreak in June 2021 as well as the severity and duration of lockdowns and restrictions and the impacts of the availability, distribution and take up of COVID-19 vaccines) and level to which business activities are expected to return may in certain circumstances be more appropriate in this environment because of the inherent uncertainties • Growth rates may be lower than historical growth rates, but may have improved relative to the prior year expectations as the economic recovery from the pandemic continues to unfold and new economic conditions develop *Discount rates* • Discount rates will need to be carefully considered. While there has been a reduction in the Australian cash rate (from 0.25% to 0.1% in November 2020), discount rates used in impairment testing may not decrease because the current volatility may necessitate the inclusion of a specific risk premium depending on the degree to which entities and cash flow scenarios are impacted by the markets expectations around ongoing volatility and uncertainty, including the new COVID-19 outbreak in June 2021 *Disclosures* • Enhanced disclosure may be required, including key assumptions (and the extent to which they reflect past experience or are consistent with external sources), period of projected cash flows, growth rates in the terminal value, discount rates, sensitivity analysis (where a reasonable possible change in assumption may give rise to an impairment) and scenario analysis (including possible recovery outcomes) *Other considerations* • Where market capitalisation is less than the carrying amount of net assets, this may raise questions around the recoverability of the assets • Impairment models should include the impact of testing any right-of-use asset arising from the recent adoption AASB 16 *Leases* • Assumptions relating to cash flow forecasts for impairment testing should be consistent, where appropriate, with areas such as going concern, expected credit losses and deferred tax asset recoverability • Indicators for the reversal of impairments relative to the preceding period should be carefully considered, noting that impairment on goodwill can never be reversed.

Analysis	Considerations
Inventories and deferred tax assets The impact of COVID-19 should also be considered on the following asset values: • Net realisable value of inventories, including a reduction of demand or increase in inventory levels • Recoverability of deferred tax assets.	*Disclosures* • Where there is significant estimation uncertainty in determining these values, key assumptions and uncertainties should be disclosed • Write downs of inventories should also be separately disclosed • Where a deferred tax asset is recognised and the entity incurred a loss in either the current or prior period and utilisation is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, the amount and nature of evidence supporting the recognition of the asset should be disclosed.
Cloud computing arrangements The IFRIC published an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement' on 27 April 2021. The decision confirms that certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset in limited circumstances, for example where the customer controls the intellectual property of the underlying software code. In all other instances, configuration and customisation costs will be an operating expense. The IFRIC's conclusions are expected to change current accounting practice and may have a significant impact on entities that have undergone digital migration projects from on-premise to cloud-based software solutions. ASIC has indicated that they expect there to be sufficient time to identify past amounts capitalised that should be expensed before financial reports for 30 June 2021 are completed.	*Change in accounting policy* • The adoption of the IFRIC decision will be accounted for as a change in accounting policy. The change in accounting policy will most likely result in a reduction in net assets and opening retained earnings due to the derecognition of previously capitalised costs with a corresponding adjustment to profit or loss in the period that the costs were incurred. The amortisation of these previously capitalised costs to profit or loss will be replaced with an operating expense in the period that the services are received • Where a change in accounting policy is required to reflect previously capitalised costs as an expense, comparative financial information will need to be retrospectively restated in order to derecognise previously capitalised costs • This requires disclosure of the impact to the opening balance sheet at the beginning of the comparative period *Other considerations* • Entities have one opportunity to adopt a change in their accounting policy. Thus, where only some amounts are identified and adjusted at 30 June 2021 as a change in accounting policy, any further amounts adjusted in subsequent periods would be treated as the correction of a prior period error • If previously capitalised amounts that could be required to be expensed under the IFRIC agenda decision may be material, but the adjustment cannot be quantified for June 2021 reporting, this fact should be prominently disclosed • Broader business impacts that result from the change in accounting treatment may include compliance with loan covenants that reference, for example, EBIT (earnings before interest and tax), EBITDA (earnings before interest tax, depreciation and amortisation) and profit before tax • The resulting impact on business metrics or targets that are sensitive to changes in these profit measures may impact the determination of performance hurdles in long term incentive schemes or earn-out clauses in business combinations, and may need to be revised or renegotiated as a result.

Further information

ASIC FAQs: What are some factors to consider for assets, liabilities and going concern assessments?

Deloitte publication: Impairment: A diagnosis

Deloitte publication: Clarity in financial reporting: Focusing on impairment issues for June 2017

Deloitte publication: Clarity in financial reporting: Software-as-a-Service arrangements

Fair value of properties and unlisted investments

Analysis	Considerations
There can be challenges in determining the fair value of property assets in this environment, particularly in areas where there may be a lack of market transactions. ASIC has specifically referred to a number of factors that may adversely impact property values, such as expected changes in work practices, changes to on-line shopping from the traditional 'bricks and mortar' businesses and economic or industry impacts on future tenancy.	*Potential changes in valuation* • Changes in valuation techniques may be required where market transactions are no longer available, or become available in the current period where not available in the prior period • Valuations typically performed on a rolling basis may need to be reassessed *Disclosures* • Fair value measurements may change their classification in the fair value hierarchy. For example, if there is an increase in the use of unobservable inputs, fair values may become level 3 measurements in the hierarchy, with substantially increased disclosure requirements • Key disclosures for level 3 measurements include: – Valuation techniques used, changes and reason for changes – Quantitative information for significant unobservable inputs – Description of sensitivity to changes in unobservable inputs – Sensitivity analysis of unobservable inputs that change the fair value significantly.

Further information

Deloitte publication: What is the impact of COVID-19 on your unlisted asset valuation?

Expected credit losses on loans and receivables

Analysis	Considerations
Expected credit losses (ECLs) are recognised for: • Interesting-bearing financial assets, such as commercial loans and mortgages, issued loan commitments and issued financial guarantee contracts (general approach) • Trade receivables, contract assets and lease receivables (policy choice to adopt the simplified approach). ECLs reflect the entity's forward-looking expectations of future credit losses and may be particularly challenging in this environment. ASIC has cautioned against using a mechanistic approach and highlighted that past models and historical experience may not be representative of expectations. The significance of the judgements in determining ECLs mean that entities need transparent disclosures, including both qualitative and quantitative information of the uncertainties and key assumptions. This may include how forward-looking impacts of COVID-19 have been incorporated into ECLs estimates.	*General* • Entities should not automatically look to the approach and assumptions adopted at the previous financial year end or half year when developing their expected credit loss expectations. As the economic and regulatory environment evolves, this may necessitate a change in expectations. For example, many entities enjoyed government support and/or increased trading conditions in the prior period. However, as this support is being progressively removed and combined with the latest COVID-19 outbreaks causing further lockdowns and restrictions, estimates and assumptions around the collectability of amounts due need to be revisited *Banking entities* • For staging purposes (i.e. 12-month ECL vs lifetime ECL), estimation of the probability of default will be impacted by whether there has been a significant increase in credit risk (SICR) since initial recognition. For example, some banks had offered payment holidays to a broad range of customers as a result of COVID-19, rather than tailoring it to the customer's specific situation (this requires careful consideration of the specific facts and circumstances). ECL models/systems typically consider payment holidays as automatic triggers of evidence of hardship and thus a SICR. However, in this case, payments holidays are not necessarily indicators of SICR. Models/systems will need to be regularly refined to reflect current practices and regulatory arrangements. For example, with COVID-19 restrictions and lockdowns still happening intermittently, these factors may still be applicable. • In addition, incorporating the impact of multiple economic scenarios, will likely require the use of model overlays with probability weighting of various scenarios (this includes possible recovery scenarios) *Non-bank corporate entities* • The simplified approach (e.g. for trade receivables) is usually less complex because of using average historical credit losses on a group of trade receivables with shared risk characteristics. In estimating ECLs, historical loss rates are adjusted to reflect current conditions and estimates of future economic conditions. To do this the portfolio may need to be further disaggregated and model overlays will likely be necessary to incorporate forward-looking information, including consideration of probability weighting various economic scenarios • Where such entities hold interesting-bearing assets, loans or guarantees (including involving joint ventures or associates), the general model will need to be applied • Similarly, in separate financial statements, the general model will need to be applied in respect of long-term intercompany debt.

Further information

[ASIC FAQs: How does the approach to expected credit losses on loans and receivables change?]

[Deloitte publication: What is the impact of COVID-19 on your unlisted asset valuations?]

[Deloitte publication: IFRS in Focus – Accounting considerations related to the Coronavirus 2019 disease]

Lease accounting, including rent concessions

Analysis	Considerations
Companies should by now have firmly entrenched into their business-as-usual reporting the new requirements in AASB 16 *Leases* (that first applied for years commencing on or after 1 January 2019). In response to COVID-19 and under the National Cabinet Mandatory Code of Conduct for commercial properties, many lessors have negotiated rent concessions with lessees, including waivers and/or deferrals of rent. While the Code of Conduct provisions only applied to 31 March 2021, revised agreements to waive or defer rent may been negotiated during the financial reporting period to 30 June 2021 and may also have an ongoing effect, both from a rent relief and accounting perspective. The accounting for these rent concessions may be complicated and depends on the specific relief granted.	*Rent concessions* • AASB 16 was amended to allow lessees to elect a practical expedient to not treat COVID-19 related concessions as modifications if certain criteria are met. Under these amendments, a lessee is not required to assess whether a rent concession is a lease modification, or account for it as a lease modification, if the relevant criteria are met • In April 2021, this amendment was extended to include the impact of rent concessions up to 30 June 2022 (previously 30 June 2021). An illustrative example of disclosures resulting from these amendments can be found in our Deloitte Australia Tier 1 model financial statements • No relief was provided for lessors. As a result, ASIC issued specific guidance for lessors providing such concessions *Sale and leasebacks* • Entities should carefully assess the appropriateness of sale and leaseback accounting, particularly where it is determined that the transfer meets the definition of a 'sale'. ASIC has made inquiries of entities treatment of sale and leaseback transactions which resulted in a material gain on sale *Disclosures* • Entities should disclose any significant judgements, including determining the lease term where renewal options exist • ASIC expects prominent disclosure of significant concessions – amounts, commencement date and expected duration of relief • For lessors, the disclosure impacts extend to judgements made in determining ECLs relating to operating lease receivables that are expected to be waived.

Net Tangible Asset (NTA) calculations and disclosures

AFSL licence requirements: In an April 2021 media release, ASIC announced changes to the financial requirements for some types of AFS licensees in relation to the treatment of leased assets, which allows certain AFS licensees, where that licensee is a lessee, to include right-of-use (ROU) assets in the calculation of their net tangible assets and, where in limited circumstances the ROU is a current asset, adjusted surplus liquid funds and surplus liquid funds. The Corporations Instruments effecting these changes result from a consultation process and follow on from the previously issued temporary 'no-action position' for AFS licensees.

NTA disclosures: AASB 16 does not specify whether a ROU asset is tangible or intangible. Rather it requires lessees to present the ROU asset within the same line as a corresponding owned asset would be presented or disclose them separately. As a result, where NTA measures are disclosed, ASIC expects they are accompanied by a prominent footnote explaining whether all, some or no ROU assets have been included in the calculation of NTA.

Further information

ASIC FAQs: How should a landlord account for rent concessions?

Deloitte publication: IFRS in Focus – Accounting considerations related to the Coronavirus 2019 disease

Liability recognition and other matters

Topic	Considerations
Onerous contracts and restructuring provisions	• The impacts of COVID-19 may result in the unavoidable costs of meeting existing contracts exceeding the benefits expected and, as a result, the recognition of an onerous contract. Alternatively, restructuring initiatives may be considered or accelerated resulting in the recognition of provisions • With the emerging economic recovery, entities may assess contracts previously assessed as onerous as no longer onerous, which would require the related onerous contract provisions to be released • Entities should consider the need to recognise any potential liabilities associated with cyber breaches, or other cyber-security incidents.
Off balance sheet arrangements	• ASIC continues to give attention to off-balance sheet arrangements, and has made inquiries of entities about the basis for an entity's apparent derecognition of trade receivables under debtor securitisation facilities.
Revenue recognition, including variable consideration, contract modifications and disaggregated revenue disclosures	• Previous estimates of the transaction price may need to be reassessed because variable consideration (e.g. sales returns or liquidated damages) is only included where it is highly probable it will not result in a significant reversal • Modifications of customer contracts may have a significant impact on the timing and amount of revenue recognised in a period and should be assessed when the modifications are being negotiated • Disclosure of disaggregated revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are impacted by economic factors may need to be reassessed given the change in the economic environment.
Casual employment and leave entitlements	• In May 2020 the Federal Court delivered its judgement in the matter of *WorkPac vs Rossato*. The judgement provided employers with guidance in applying the definition of a 'casual' employee and ruled that the employer could not 'offset' payments made as casual loading against leave entitlements owed under the *Fair Work Act 2009* • Companies reporting at 30 June 2020 and 31 December 2020 should have considered whether they should have provided for additional employee entitlements (including, annual leave, personal and carer's leave, compassionate leave, public holiday pay and redundancy payments) for past and present 'casual employees' who were employed in circumstances covered by the Court decision in *WorkPac vs Rossato* • Following this, the *Fair Work Amendment Act 2021* made amendments to the *Fair Work Act 2009*, which came into effect from 27 March 2021. These amendments introduced a definition of 'casual employee' and affected workplace rights and obligations for casual employees and companies • At 30 June 2021, affected companies should consider these amendments in determining the appropriate accounting treatment of any related employee liabilities • Affected companies may need to seek legal advice.

Topic	Considerations
Contingent payments in business combinations dependent on employment	• Often business acquisitions include payments to the former owners of the acquired business in return for them remaining in employment (commonly referred to as earnout payments). When such payments are forfeited if the former owner does not remain in the employ of the entity, these payments should be recognised as remuneration and not as part of the consideration for the acquisition • The measurement of these contingent payments (whether as part of the consideration for the acquisition or as remuneration) will need to be revisited to reflect changes in circumstances from the prior year as the economic recovery continues.
Half-year financial reports	• Half-year reports must explain the events and transactions that are significant to understanding the changes in financial position and performance since the end of the financial year • With the inherent uncertainties and rapidly changing conditions under COVID-19 conditions, entities may need more disclosures than usual in their 30 June 2021 half-year financial reports to explain the impacts of changing conditions and significant developments that have occurred since the last full-year report.
Client monies	• When arrangements are entered into that involve client funds being held in trusts or similar facilities, entities should consider who controls the funds whether these funds represent an asset of the entity or not • Any restrictions on the transferability of cash should be transparently disclosed.
Dividends	• It is important that entities considering paying a dividend ensure they consider all appropriate accounting, legal and tax aspects before declaring a distribution • For entities incorporated under the *Corporations Act 2001*, the declaration of dividends is subject to the 'net assets test' in s.245T. In order to pay a dividend, an entity must have sufficient net assets, the declaration of a dividend must be fair and reasonable to the company's shareholders, and the payment of a dividend must not materially prejudice the company's ability to pay its creditors • Under Australian tax law, a dividend can only be franked if it is paid out of profits. Accordingly, a 'profits test' remains relevant for these purposes, and many argue that the profits test also remains relevant in relation to the declaration of dividends under the *Corporations Act 2001* • Entities seeking to pay a dividend, or frank a distribution, that is paid other than out profits available in the entity itself, should ensure appropriate legal and tax advice is sought.

COVID-19 disclosures

Topics	Considerations
Significant judgements and estimates Disclosures will be one of ASIC's key focus areas in June reporting. Entities can expect regulatory scrutiny to be rigorous. This includes clearly disclosing changes in key assumptions between reporting periods under COVID-19 conditions as circumstances change or become clearer. Early planning and timely preparation of position papers will enable management and directors to make informed decisions on key estimates and judgements and will support the quality of the financial information provided to the market.	• Entities should disclose all significant judgements and estimates. The disclosures should be specific to the entity including the impact on particular assets, liabilities, revenues and expenses as outlined in AASB 101 *Presentation of Financial Statements* paragraphs 122 to 133 • Disclosures of significant estimates may include: – Sources of estimation uncertainty – Assumptions made – Sensitivity and scenario analysis • These significant judgements and estimates will differ from entity to entity, but most commonly include impairment of assets, fair values of investment property and investments, expected credit losses of loans and receivables, recovery of deferred tax assets and the assessment of the entity's ability to continue as a going concern.
Government and other support ASIC has emphasised that entities should prominently disclose support from government or third parties, such as financiers and landlords. Key disclosures include: • Significant amounts • Commencement date • Expected duration of the support.	• Examples include: JobKeeper, land tax relief, loan deferrals and restructuring and rent concessions received during the reporting period • For items that are recognised as government grants such as JobKeeper where the related employee cost is expensed, for-profit entities have an accounting policy choice to present the grant income as other income, or alternatively deduct the grant from the related expense • Where material, the accounting policy for these grants should be clearly disclosed together with the nature and extent of such grants. Separate disclosure is particularly important where the grant has been deducted from the related expense • Where entities voluntarily elect to return JobKeeper or other amounts, clear disclosure of material amounts returned should be made.
Supply chain financing arrangements While not specifically mentioned by ASIC, significant supplier financing or other similar arrangements, should be clearly disclosed.	• The presentation of such liabilities as trade and other payables or financing liabilities, presentation of related cash flows and note disclosures was discussed by the IFRIC at its December 2020 meeting. This agenda decision highlighted the importance of the need for clear disclosures related to these arrangements in terms of AASB 101 *Presentation of Financial Statements*, AASB 7 *Financial Instruments* and AASB 107 *Statement of Cash Flows.* • These arrangements often give rise to liquidity risk and therefore the requirements of AASB 7 paragraph 33 – 35 relating to disclosure of an entities exposure to risks relating to financial instruments, including liquidity risk, will be particularly relevant • Further disclosures may include separate presentation of the amounts payable, key terms of the arrangements, accounting judgements applied in determining whether to present such amounts as payables or borrowings and how the risk and exposures are managed.

Topics	Considerations
Current and non-current classification Entities should pay attention to the classification of assets and liabilities between current and non-current in the statement of financial position.	• This may require consideration of maturity dates, payment terms and understanding the various covenants requirements and the related compliance with these covenants • Disclosures of these facilities, including specific liquidity disclosures are critical when they are material to the entity's funding or viability.
Operating and financial review (OFR) ASIC has emphasised that the OFR should complement the financial report and tell the story of how the entity's business is impacted by COVID-19. The overall picture should be clear and understandable and supported by information to enable investors to understand the significant factors affecting the businesses and asset values. ASIC has highlighted that climate-related risks could have a material impact on the future prospects of entities.	• The circumstances of companies and the environment can change significantly from one reporting period to the next under COVID-19 conditions. The ongoing recovery could significantly affect the assessment of asset values, liabilities and therefore the financial position • The OFR should identify and give appropriate prominence to all significant causes of adverse performance, not just those attributable to COVID-19 • The OFR should explain the underlying drivers of the financial position and performance, the risks, management strategies to address the risk and impacts from COVID-19 and future prospects for the business • Listed companies must ensure they are providing the market with reliable and useful information on their exposure to material climate-related risks and opportunities. Directors should consider disclosing information that would be relevant under the Task Force for Climate-related Financial Disclosures (TCFD) recommendations.

Further information

ASIC FAQs: What disclosures should be made in the financial report? and What disclosures should be made in the OFR?

ASIC article: Managing climate risk for directors

Deloitte publication: Clarity in financial reporting: Disclosure of climate-related risks

Deloitte: Climate related risk disclosures – Answer the challenge of the TCFD recommendations

Deloitte publication series: Purpose-driven Business Reporting in Focus

Non-IFRS measures

Analysis	Considerations
ASIC continues to focus on the disclosure of non-IFRS financial information. The unprecedented nature of COVID-19 could result in an increase in entities seeking to utilise non-IFRS measures in communicating their financial performance and position to stakeholders. ASIC has specifically stated that non-IFRS profit measures that purport to show the result had COVID-19 not occurred or splitting profit or loss between a pre and post-COVID period is likely to be misleading.	*Financial statements and notes* • Typically, non-IFRS measures may not be disclosed in the financial statements, except in presenting segment reporting or earnings per share information • It may be possible to quantify and disclose specific items of income or expense that arose solely due to the impact of COVID-19 in the notes. However, caution should be exercised to ensure that only those items that are solely relate to COVID-19 are described as such *Documents other than financial statements (OFR or investor presentations)* • Non-IFRS measures should be appropriately reconciled to IFRS measures and not given undue prominence • Non-IFRS measures should also be consistently determined and unbiased, including both positive and negative impacts. • ASIC has specifically called out in the current period that where asset impairment losses were excluded from a non-IFRS profit measure in a prior period, any subsequent impairment reversal should also be excluded from that measure for the current period.

Further information

ASIC FAQs: Can I use alternative profit measures that remove the impact of the COVID-19 pandemic?

Deloitte publication: Clarity in financial reporting: Non-IFRS measures – enhancements or embellishments?

Reporting deadlines

Where more time is needed to ensure that all the reporting and governance requirements are met appropriately, ASIC has provided extended deadlines for both listed and unlisted entities, which provides an additional one month for entities with balance dates between 23 June 2021 and 7 July 2021. The ASX has also issued a Class Waiver that permits listed entities to take advantage of the ASIC relief.

The extended deadlines may assist with pressures on resources for the audits of entities in order to provide adequate time for the completion of the audit process taking into accounting the challenges presented by COVID-19 conditions.

Further information

Deloitte publication: Clarity in financial reporting: Revised financial reporting deadlines for June 2021

Conclusion

We strongly recommend that entities:

- Carefully determine those areas of focus that require further attention in determining the appropriate application of Australian Accounting Standards
- Document the basis and assumptions for key judgements and estimates related to these areas
- Provide meaningful disclosures in the financial statements so that users can clearly understand the impact of the COVID-19 environment and the emerging economic recovery, including significant changes in circumstances since the prior period, on the entity and its financial report.

Contacts

Jonathan Streng
Director
jstreng@deloitte.com.au

Frank Betkowski
Principal
fbetkowski@deloitte.com.au

Alison White
Partner
aliswhite@deloitte.com.au

Anna Crawford
Partner
acrawford@deloitte.com.au

Clive Mottershead
Partner
cmottershead@deloitte.com.au

Henri Venter
Partner
hventer@deloitte.com.au

Moana Overton
Partner
moverton@deloitte.com.au