

20 May 2020

## ESMA Public Statement - Implications of the COVID-19 outbreak on the half-yearly financial reports

### 1.0 Background

Today, 20 May 2020, the European Securities and Markets Authority (ESMA) published a [Public Statement on the implications of the COVID-19 outbreak on the Issuers' half-yearly financial reports](#) (hereinafter referred to as the "Public Statement"). The Public Statement outlines specific recommendations by ESMA in relation to the areas which Issuers should focus on in preparing and publishing the half-yearly financial reports, given the circumstances brought about by the pandemic. In this regard, these recommendations are aimed at promoting transparency and consistency in the application of the relevant European requirements.

In emphasising the need for transparency in financial communication, in this case for the 2020 half-yearly reporting periods, the Public Statement delves into the following areas:

- The timing of publication of the 2020 half-yearly financial reports along with the overarching requirement to provide relevant and reliable information;
- The need to provide updated information further to the information included in the latest annual accounts, particularly in relation to the current and expected impact of COVID-19 on the financial statements, principal risks and uncertainties, going concern, impairment of non-financial assets, the presentation of COVID-19 related items in the statement of profit or loss as well as other disclosure requirements; and
- The importance of detailed and entity-specific information in the interim management reports.

ESMA remarks that the Public Statement also applies to other financial statements where IAS 34 *Interim Financial Reporting* is applied. Moreover, ESMA particularly addresses the Public Statement management; administrative bodies, including audit committees; and where applicable their auditors. In this period of increased challenges, ESMA highlights that audit committee should further enhance their role to ensure high-quality reporting.

### 2.0 Timing of publication of 2020 half-yearly financial reports

ESMA stresses that there shall be no undue delay in publishing periodic information, with the primary objective being to provide timely, relevant and reliable information. The Public Statement specifically refers to the impact of material events occurring after the end of the reporting period as well disclosures as per IAS 34.16A(h).

### 3.0 Updated information in half-yearly financial statements

#### 3.1 Application of IAS 34

ESMA refers to IAS 34.6 which prescribes that interim financial reports should focus on "...*new activities, events, and circumstances...*". Given the events that have materialised in 2020 due to the pandemic, ESMA expects that new information provided in the half-yearly financial statements is particularly extensive.

Furthermore, for most Issuers, COVID-19 is expected to be a significant event in line with IAS 34.15 – IAS 34.15C. Hence, Issuers are urged to adjust the detail provided accordingly. In addition, ESMA highlights that Issuers should not only consider IAS 34 in preparing the disclosures for the interim financial reports and should refer to individual International Financial Reporting Standards (IFRSs), if this better enables users' understanding. In this respect reference is made to IAS 1 *Presentation of Financial Statements*, specifically IAS 1.17 – IAS 1.31. By way of example, some IFRSs considered to be particularly relevant are IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IAS 12 *Income Taxes* and IFRS 16 *Leases*.

#### 3.2 Disclosures on significant uncertainties, going concern and risks linked to COVID-19

Considering the various uncertainties introduced by COVID-19, the Public Statement contemplates that there may be a significant risk of material adjustment to the carrying amounts of assets and liabilities. Hence, ESMA highlights the respective applicability of IAS 1.125 and IAS 34.16A(d).

Moreover, in view of IAS 1.125, ESMA expects that all available financial information about the future is considered in the assessment of the Issuer's ability to continue as a going concern. Should there be significant judgements involved in concluding whether there is material uncertainty over going concern, Issuers should duly disclose these judgements, as also noted by the IFRS Interpretations Committee in July 2014.

In addition, given the financial risks that may have been triggered by the outbreak, ESMA reiterates the vitality of additional disclosures, specifically in relation to IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*<sup>1</sup>.

#### 3.3 Impairment of non-financial assets

In the Public Statement, ESMA refers to specific paragraphs in IAS 36 *Impairment of Assets*, that should be considered following the effects of the pandemic. IAS 36.9 – IAS 36.12 are likely to be relevant given that the effects of the outbreak may have triggered indicators of impairment. Reference is also made to IAS 36.23, IAS 36.55 and IAS 36.56 due to the impact on reasonable approximations and projections. ESMA reminds Issuers that disclosures should be updated as per IAS 1.122, IAS 1.125, IAS 36.134(d) and IAS 36.134(f).

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<sup>1</sup> MFSA Circular dated 25 March 2020 regarding the ESMA Public Statement on COVID-19 and the calculation of expected credit losses (ESMA32-63-951 – Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9, Public Statement, 25 March 2020) refers

### 3.4 Presentation of COVID-19 related items in the statement of profit or loss

ESMA remarks that separate presentation of the COVID-19 impact in the Issuers' profit or loss statement could possibly not faithfully represent the overall financial performance, position and/or cashflows.

Therefore, Issuers are encouraged to provide qualitative and quantitative information on the relative significant impacts of the amounts presented and recognised in the statement of profit or loss by way of a note to the financial statements.

### 3.5 Other disclosure requirements applicable to half-yearly financial statements

ESMA notes that additional disclosures could be warranted in relation, but not limited, to the following requirements:

- Recognition of Deferred Tax Assets and tax reliefs as per IAS 12 *Income Taxes*;
- Fair value measurement as per IFRS 13 *Fair Value*; and
- Provisions and onerous contracts as per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Moreover, ESMA recommends that Issuers monitor the developments in relation to IFRS 16 *Leases*.

### Contacts

Should you have any queries relating to the above, kindly contact the Authority on [transparency@mfsa.mt](mailto:transparency@mfsa.mt).