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Airlines

Financial reporting implications of COVID- 19

April 2020

Unprecedent times for airlines as they battle for survival. Regulators advise companies to monitor current and potential effects of coronavirus on financial reporting and market disclosures.

Background and Regulator's statement

The airline industry is in freefall as travel bans cause a significant decline in passenger numbers and revenues in rapid time. The airlines that combine air freight in addition to “revenue passenger miles” (or kilometers) within their business model may have a slight benefit when supply chains and the market demands return. The airlines that support the e-commerce growth sector during the crisis may create additional cargo revenue during the crisis. In response to the crisis and social distancing, carriers around the world have cancelled flights and preparing for their first zero-dollar sales days in aviation history and the associated delay in cash inflows.

Some of the responses being considered include temporarily requesting voluntary furloughs, laying off significant numbers of staff, deferring aircraft/engine maintenance, deferring aircraft deliveries, ceasing capital expenditure, grounding of high operating cost aircraft fleets, returning leased aircraft early, and cancelling indirect/direct services/materials purchase orders to reduce operating costs as quickly as possible to preserve liquidity.

The International Air Transport Association’s (IATA) estimates US$252 billion in lost revenues now looks optimistic and IATA has suggested up to US$200 billion of state aid in the form of cash injections and loan guarantees may be required to save the industry from collapse. The past years of share buy-backs and focus on net debt are relevant to many airlines as private equity and lenders focus their attention on this segment. Economic research by IATA showed that in January 2020, most carriers had less than 3 months’ worth of cash to cover EBITDAR and aircraft rental costs. These reserves will have already dwindled, and airline management teams are currently exploring every avenue to delay payments, with many airlines in discussions with leasing companies (which are estimated to own around 50% of the global fleet) and with other parties, such as air traffic management agencies, to delay lease payments and route charges. The various options to return leased aircraft, return maintenance inventory, defer new aircraft deliveries, and potentially cancel aircraft options are all important considerations. It is becoming apparent that for many, that this will not be enough and significant state aid will be required to get many through the revenue valley that the current global situation has created.

Large carriers are expected to have better access to financing. Airlines may also consider secured financing on their aircraft fleets. However, the aircraft fleets may become de-valued or, at a minimum, challenged by current and future lenders. The cycles (take-off and landing) and hours flown that drive regulatory maintenance compliance will determine the extent that maintenance costs can be deferred.

Due to the widespread scale and reach of the pandemic, much will depend on the actions and support provided by each individual government. Earlier in March, Civil Aviation Administration of China (CAAC) announced a range of measures to support the sector in China from short term support and relief, to restarting services and to increased infrastructure expenditure. In Europe, some governments have made available cash facilities and grants, sometimes subject to the need for debt forgiveness from its creditors. In the United States, government grants and aid totaling US$58 billion for the aviation industry have been approved.

Given the uncertainty around when this disruption will end, government support through short-term loans, grants and tax relief is a welcome intervention and we are observing more and more of this as the crisis unfolds. However, should the disruption be prolonged there will be significant knock-on effects through the broader aviation industry including airport operators, the airframe and engine manufacturers and the entire aerospace supply chains and even the leasing firms. More coordinated support could be required in the coming months applying greater pressure to strained economies. What is clear however, is the significance of the aviation industry to the wider economy and its strategic importance in playing a role in the global recovery. The continuation of airline consolidation through mergers and the likely acquisitions (or equity positions in publicly traded airlines) will likely occur before and after the crisis pandemic is stabilized.

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Turning to the financial reporting, regulators globally are looking for updates from listed companies as well as providing relief in reporting deadlines in certain circumstances. The European Securities and Markets Authority ("ESMA") have emphasized that issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalized or otherwise in their interim financial reporting disclosures. However, due to the unprecedented nature of the pandemic, and the corresponding disruption caused, the financial impact on airlines is difficult to determine.

What should companies consider?

Companies should assess the effects that the virus outbreak may have on required reporting. The following list provides an overview of items that companies should consider.

Periodic disclosures. Airlines should consider their disclosure obligations regarding business risks related to the impacts of coronavirus within the context of regulators 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 related the risk factor and the management's Discussion and Analysis of Financial Condition and Results of Operations (liquidity, results of operations) and quantitative and qualitative disclosures about market risk.

Airlines should consider similar disclosure in the relevant sections of interim filings, including material changes in financial condition. 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.

Business risk	Disclosure considerations
Customer demand	— Reduction in forward bookings and the associated material reduction in sales in advance of carriage/deferred revenue — Ticket refunds, cancellations, re-issues and change in ticketing terms — Changes in passenger ticket and potentially loyalty breakage rates — Changes in terms and conditions of loyalty programs and tier status
Financing	— Covenant ratios — Term of existing and new financing facilities — Defaults in rent contracts related with financial difficulties — Cash flow maturities — Unencumbered aircraft — Going concern and viability disclosures
Operational	— Changes to Available Seat Kilometers — Changes in fuel costs vs existing hedging arrangements — Subcontractor obligations — Commitments capital expenditures related with maintenance. — Working capital including accounts receivables, accounts payable and inventory
People	— People retention (management and operational teams) — Impact of market volatility on defined benefit pension balances — Impact of remuneration schemes for 2020 Costs associated with restructuring / redundancy programs

Accounting and financial reporting impacts. Airlines should consider how fleet groundings, travel bans, economic uncertainties and market volatility will affect accounting conclusions. While not exhaustive, a list of COVID-19 impacts and associated considerations are included below

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Covid-19 Effects	Relevant Accounts/ Disclosures	Accounting and Auditing Standard 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 — AICPA Audit & Accounting Guide – Airlines 2.132 - 2.138 — Hot Topic: Coronavirus – Subsequent events, going concern, and risks and uncertainties disclosures dated 25 March 2020 — What are the relevant going concern considerations? Dated 20 March 2020.	— Update of audit risk assessment and associated Key Audit Matters (“KAMs”) or Critical Audit Matters (“CAMs”) — For 31 December year end reporting companies, likely focus on going concern, liquidity and subsequent events in the financial statements — Post 31 December year end reporting companies, in addition to the above considerations for 31 December year end reporting companies, additional issues covered in this document are likely to be pervasive. — Under IFRS Standards, management is required to assess a company’s ability to continue as a going concern. A company is no longer a going concern if management either intends to liquidate the entity or cease trading or has no realistic alternative but to do so. [IAS 1.25] — Companies are required to disclose material uncertainties related to events or conditions that may cast significant doubt on their ability to continue as a going concern. In addition, disclosure is required when management concludes that there are no material uncertainties but reaching that conclusion involved significant judgement (a ‘close call’). [Insights 1.2.80] — 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 outbreak, which has been further exacerbated by a decline in oil prices. — In assessing whether the going concern assumption is appropriate, management assesses all available information about the future (which is at least, but not limited to, 12 months from the reporting date), considering the possible outcomes of events and changes in conditions, and the realistically possible responses to such events and conditions that are available. [IAS 1.26] — Consider member firm consultation criteria including those relating to going concern and impairment of non-financial assets.

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Covid-19 Effects	Relevant Accounts/ Disclosures	Accounting and Auditing Standard Guidance	Financial Reporting Considerations
Grounding of fleet (reduction in capacity)	— Aircraft and components (including ROU assets) — Other assets within CGU to which aircraft relates to (e.g. goodwill) NB: Most airlines have network level CGUs. Prima facie unlikely to change unless permanent shutdown of fleet types or sub-networks.	— IAS 36.12 — IFRS 13.16 — FASB ASC 360 — FASB ASC 820 — Hot topic: Coronavirus – Increased risk of impairment of goodwill and long-lived assets dated 16 March 2020 — Have non-financial assets become impaired? Dated 20 March 2020. — Insights to IFRS 3.10.120 — Insights into IFRS 3.10.230.20 — Insights to IFRS 2.4.480.10 — AICPA Audit & Accounting Guide – Airlines 4.44- 4.65 and 7.26 - 7.29	**Questions:** **1. Is this event an indicator of PPE impairment?** Entities need to consider the following: a) Does this constitute a significant adverse change in the extent or way the aircraft (and its components) are being used? b) Are the declines in profits arising from the grounding of fleet short-lived or extend into the foreseeable future? c) Where the value of non-financial assets is weighted towards terminal values, is a longer forecast period appropriate to reflect a return to maintainable earnings? It has been noted that when economies enter a difficult period, in our view it may be necessary to determine the terminal value in two stages to reflect the impact of economic contraction and a subsequent return to maintainable earnings. In the first stage, growth rates (potentially on a year-by-year basis) are applied to take the cash flows: — to a level at which they can be regarded as reflecting maintainable earnings; and — to the period in a mid-point of the cycle - i.e. not at the peak or trough of the cycle. The second stage is an extrapolation of those maintainable earnings until the end of the asset's life. In accordance with IAS 36, this growth rate should not exceed the long-term average growth rate appropriate to the asset or CGU, unless a higher rate can be justified. [IAS 36.33(c)] In addition to the above, it has been noted that for older generation aircraft fleets (e.g. Boeing 737-300/400, older Embraer and McDonnell Douglas aircraft, etc.), considering recent events, there might be economic incentives to retire these aircraft. Apart from the grounding of fleet, other decisions made by the airlines arising from COVID-19 should also be considered in determining impairment indicators. Some examples of indicators include: — Concessions to passengers that exceed normal business practice — Significant deficit in market capitalisation compared to total equity triggered by significant decreases in share prices

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			It is expected that in almost all instances, there would be an indicator of impairment. **2. How to determine the fair value less costs to disposal (FVLCTD) (recoverable amount) of the CGUs?** The recoverable amount of a CGU is the higher of the fair value less costs to sell, and the value in use. Aircraft typically form most assets within a CGU. Hence, in a fair value less costs to sell model, market values are typically used for aircraft, pre-delivery payments and aircraft lease ROU asset valuations within the CGUs. A fair value measurement may be affected if there has been a significant decrease in the volume or level of activity for that item compared with normal market activity for that item. Judgement may be required in determining whether, based on the evidence available, there has been such a significant decrease. An entity assesses the significance and relevance of all facts and circumstances. [IFRS 13.B37, B42] Factors that might be considered include the following: — There are few recent transactions. — There is a significant decline in primary market activity for similar assets or liabilities. — Price quotations are not based on current information. — Little information is publicly available. With the sharp decline in demand and activity for aircraft, aircraft valuers may have difficulties in obtaining current information. The absence of a market poses a challenge in determining fair value of the aircraft. Based on a study done by the aircraft valuer Ascend, the market value of single and twin aisle aircraft has decreased by 15% to 20% and market lease rates have decreased by 20% to 25% in past crises (e.g. SARS Global Financial Crisis). Given the recency and ongoing impact of this crisis, the full extent of impact to aircraft values and leases will be difficult to determine and could well exceed the declines observed in past crises. The fair value of an asset (or liability) should reflect market conditions at the measurement date. This has become more challenging due to the uncertainty of the economic impact of COVID-19. The uncertainties of COVID-19 effects into FVLCTD will be a challenge. As a result of the inherent uncertainties arising from determining a fair value for aircraft, VIU may be a more appropriate method.

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			3. In conducting a value in use impairment assessment, how should assumptions used in determining recoverable amount reflect COVID-19 effects? — Areas to look out for include the following: - **Discount rate:** When considering the discount rate for a VIU computation, the risk-free rate and beta should typically consider a long-term metric. The discount rate needs to reflect the most recent updated information, including those relating to risk free rate, beta, cost of debt and equity. An increased forecasting risk may also be adjusted through the alpha. - **Cash flows:** Adjustments for fleet capacity and routes cancellation - **Growth rates:** Near term growth rates require revision whilst longer term industry published growth rates may still be appropriate - **Fuel costs:** Recent decrease in fuel prices need to be considered, coupled with "locked-in" hedged fuel prices. - **Leases:** the impacts of IFRS 16 are an added complication for most airline impairment tests this year. It will be important for lease costs to be included into the terminal value consistent with the size of fleet required to achieve forecast revenues even if an airline is making short-term decisions that exit leases. — Whilst the duration of COVID-19 is unknown and fluid, IATA modelling suggests that previous outbreaks have peaked after 1 to 3 months and demand levels recovered to pre-outbreak levels in 6 to 7 months. This may be relevant to the assessment, although the situation continues to evolve and COVID-19 appears to be having a broader global impact than other outbreaks. There are also increasing indications of a global recession similar to 2008 and airlines should also consider how demand levels recovered following the 2008 crisis. — Retrospective reviews of forecasting accuracy will have minimal relevance as the pandemic is unprecedented. — Disclosures of information about assumptions and estimation in respect of a significant risk resulting in a material adjustment to the carrying value of an asset or liability.

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Grounding of fleet (reduction in capacity) (continued)	— Depreciation of aircraft and components	— IATA Guidance – IAS 16 — IAS 16 — Insights to IFRS 3.2.160.30	**Questions: Historically 'time' has been used to reflect the pattern of consumption of future economic benefits.** **1. Does the mass grounding of aircraft represent a significant change in the expected pattern of consumption?** **2. If so, how would this be allocated between depreciation due to age of aircraft versus usage of aircraft?** — IAS 16.55: "Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production." — IAS 16.61: The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8. — On the above basis, airlines could, through a prospective change in policy, change the depreciation method to a usage-based method. This may result in reduced depreciation during the period of grounding. Airlines should also consider whether this affects the residual values including consideration of technological advances in aircraft further into the future. — Prima facie, there could be an argument for the depreciation rates for usage based embedded maintenance events (e.g. engine overhauls) to be adjusted. However, careful analysis is required. It is also worth noting that time-based value decline will generally continue from a market value/FV perspective in addition to changes in market value. While FV depreciation is unrelated to normal accounting depreciation, this may cause a larger gap between NBV and VIU/FVLCTD and ultimately be reflected through impairments if impairment is recorded. Further, parking of aircraft may cause operators to incur additional expenses related to inspections and maintenance upon returning to service.

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Grounding of fleet (reduction in capacity) (continued)	— Provision for lease return conditions	— IFRS 16 — FASB ASC 842 — IAS 37 — Insights to IFRS 5.1.295	**3. Does the change in usage of leased aircraft impact provisions?** — Airlines may be required to return lease aircraft to the lessor at contractually agreed return conditions. Certain return conditions which are dependent on usage of the component at end of lease may be determined based on the amount of flight hours or flight cycles. An airline should re-assess the basis of estimates used to determine provisions required for such components.
	— Aircraft maintenance and overhaul cost	— IAS 16 — IAS 37	**4. What areas should be considered?** — Airlines with power-by-the-hour arrangements with their maintenance providers would need to consider any minimum flying hours within the contract and assess if the threshold could be met and whether the airline must compensate the maintenance provider for any shortfall. Any compensation payments should be accounted in accordance with IAS 37. — For maintenance event that are capitalized and depreciated, airlines would need to assess if the changes to flight hours and flight cycles impact their capitalisation or depreciation rate.
Reassessment of existing operating leases – e.g. terms, payment schedules, option to purchase, sub-lease etc.	— ROU Assets — Lease liabilities	— IFRS 16 — FASB ASC 842 — Hot topics: Lease accounting impacts of the COVID-19 outbreak. — Has COVID-19 resulted in an unavoidable liability or a loss-making contract?	**Question:** **1. What areas should be considered?** — Impairment indicators (see [Grounding of fleet] above). The right of use asset may be included within a CGU or may have indicators of impairment at the individual lease level, especially if there is a short remaining lease term and therefore less opportunity to utilize the asset following a recovery. — Lessee reassessments – Economic events such as those arising from the COVID-19 outbreak may trigger a contingency in one or more lease contracts (e.g. with respect to the lease payments or the lease term – e.g. a minimum payment clause or a termination right). — The expected residual value of an underlying asset may be affected by the economic circumstances, requiring reassessment of the amount it is probable that the lessee will owe under a residual value guarantee. — Fair value of the underlying asset affects lease classification for lessors and the accounting for new sale-leaseback transactions. The fair value of a ROU asset affects whether and how much impairment is recognised on a ROU asset. Fair values may be affected by significant economic events

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			such as the COVID-19 outbreak (see [Grounding of fleet] above). — Lessees that may have already committed to a plan to cease use of an ROU asset or would have done so regardless of COVID-19, and were intending to sublease the underlying asset, may conclude they are not practically able to sublease it, triggering abandonment accounting (i.e. accelerated amortization of the ROU asset). — Force Majeure and Termination for Convenience clauses in aircraft and engine leasing contracts and rotable/exchange pool (APUs, Landing Gear, etc.) agreements need to be considered. — If COVID-19 results in a liability, or a contract becoming loss making, then the company needs to recognize a provision for onerous contracts.
Force Majeure clause in contracts	Capital commitments	— IAS 16.74(c) — IAS 38.122(e)	**Question:** **1. Do vendors (aircraft manufacturers, banks, etc.) have the contractual right to invoke the Force Majeure clause in existing contracts?** — Perform inquiries with legal counsel regarding the intended use of these clauses (if they exist) prior to financial year-end. The inquiries should include contract by contract — To consider obtaining legal confirmations from external (and/or) internal counsels on the outcome of the inquiries. — KPMG does not provide legal advice and hence understanding contracts may require professional input from qualified parties. We understand broadly that force majeure clauses (where applicable) may be invoked when the following (distinct) criteria are satisfied: - the event must be beyond the reasonable control of the affected party; - the affected party's ability to perform its obligations under the contract must have been prevented, impeded or hindered by the event; and - the affected party must have taken all reasonable steps to seek to avoid or mitigate the event or its consequences. — We understand that most force majeure provisions contain "catch-all" language in respect of events which are "outside the reasonable control of the party affected". We also understand that it is important to bear in mind that the relevant force majeure event need not

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			be COVID-19 itself. It is the consequences of COVID-19 and its impact upon the ability of the affected party to fulfil its contractual obligations that will be relevant. — This understanding is based on publicly available information and not on interpretation of any case law in any jurisdiction. Entities should obtain appropriate legal interpretation should these clauses become relevant to accounting judgements.
Material Adverse changes clause in contracts	Borrowings	— IAS 1.69(d) — Insights to IFRS 3.1.40.110	**Question:** **1. How does the Material Adverse Change clause affect the classification of borrowings?** — If the clause is invoked **prior to financial year-end**, the borrowings will be classified as current. — If the clause is invoked **after financial year-end**, this should be treated as an adjusting event and the related liability should be classified as current at the reporting date. Careful analysis is required in determining the trigger for the clauses to be invoked (e.g. upon expected breach or notification from the bank).
	Undrawn facilities	— IFRS 7.4 — Insights to IFRS 7.10.10.20	Availability of undrawn facilities require consideration. Other considerations include disclosures on undrawn facilities in the financial statements.
Relief/ incentives from Government and/or airports – e.g. Waiver of landing charges, passenger taxes, government guarantees on debt or contracts, etc.	Revenue Other income Costs Deferred income Tax Debt and other guarantee disclosures	The relevant accounting guidance will depend on the form of the relief. — IAS 20 if a government grant; — IAS 12 if a change to the corporate tax regime; — IFRS 15 if a change to the terms of laws and regulations normally considered as part of the customer contract, e.g. some compensation schemes. — Hot Topic: Coronavirus – Income tax accounting impacts, including interim estimates and valuation allowances dated 20 March 2020. — Are government grants recognised in the right period and appropriately measured? Dated 20 March 2020	— Significant judgement may be required to determine when and how to recognise new government assistance programs (e.g. gross versus net in the income statement or capital treatment for asset related amounts). — Each relief and incentive from governments require careful analysis, considering the nature and timing of the benefit/incentive being provided/granted. Consideration is also required as to whether relief is enacted under legislation and can be relied upon.

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Increased flexibility in ticket terms – Waiver of cancellation charges	— Sales in advance of carriage — Passenger breakage revenue	— IFRS 15 Contracts with customers — FASB ASC 606, Revenue from Contracts with Customers — AICPA Audit and Accounting Guide, Revenue Recognition Chapter 10 Airlines — Are customer contracts still enforceable? Dated 25 March 2020. — Are revenue estimates up to date? Dated 25 March 2020.	**Key focus: Passenger breakage estimates** — Revenue estimates need to be updated to reflect the latest expectations, which may impact the timing and amount of revenue recognized. — An airline should recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger (or flown revenue), using historical trend information. — With the change in ticket terms, where historical trend information has been used in the past as a basis for estimating future breakage rates, this approach may need to be re-examined. — Uncertainty about whether the rights and obligations in customer contracts remain enforceable may affect the timing and amount of revenue to be recognized.
Changes to hedging programmes	— Derivatives	— IFRS 9.6.5.11(c) — Hot Topic: Coronavirus – Potential impacts on the accounting for financial instruments dated 23 March 2020 — FASB ASC 815 — KPMG Derivatives and Hedge Accounting Handbook	**Key focus: Fuel derivatives and FX derivatives** — An airline should re-assess its forecasted fuel consumption and assess whether the volumes of fuel hedged are still expected to be "highly probable forecast transactions". If the usage is not expected to occur, any amounts in the cash flow hedge reserve will be recognized immediately in P&L. — As a result of falling oil prices, airlines might consider various means to limit the economic losses suffered on existing fuel derivatives. Some of these measures include cancelling existing derivative positions or entering into new derivatives positions. Entities need to understand the rationale and objective of these new measures in assessing any resultant accounting treatment. — Similarly, hedged foreign currency transactions including fuel purchases, aircraft pre-delivery payments, lease liability, end of lease overhaul obligations, capital commitments and revenue will also need to be reassessed as they may no longer be probable or may be delayed. — Margin requirements on derivative positions impacting cash flows, liquidity disclosures. Valuation of derivatives, especially options, may become more difficult due to increases in volatility causing a greater range of possible valuation outcomes at the reporting date under different valuation techniques.

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Impact of slot requirements	Intangible assets	— IAS 36 — FASB ASC 350 — AICPA Audit & Accounting Guide – Airlines 6.16 - 6.21 and 6.42 - 6.55	**Question:** **Is non-fulfilment of slot requirements an indicator of PPE impairment?** — Whilst regulators have alleviated slot usage requirements in the short term, as these assets are typically non-amortizing intangible assets, careful analysis is required.
Extension of expiry periods of loyalty program	— Deferred revenue — Breakage	— IFRS 15 Revenue from contracts with customers	**Key focus: Loyalty Program fair value and breakage estimates** — Extensions to the expiration date of loyalty points, tier status or the licensing period should be evaluated for a contract modification and could require a cumulative-catch up adjustment to adjust revenue previously recognized.
Change in redemption behavior in loyalty program	— Fair value — Deferred revenue — Breakage	— IFRS 15 — FASB ASC 606, — AICPA Audit and Accounting Guide, Revenue Recognition Chapter 10 Airlines	**Key focus: Loyalty Program fair value and breakage estimates** — Reduced availability of flight rewards in the short-term may affect the fair value if a lower proportion of points are expected to be redeemed for flights. — Any significant increases in redemption activity that may require a retrospective adjustment of balance breakage estimates to be monitored. — Significant changes to forecasted loyalty program revenue may impact both the estimate of variable revenue and the estimate of standalone selling price of performance obligations.
Decrease in credit rating of airlines under interline arrangements	Interline receivables Various deposits with vendors, manufacturers, airports and lessors. Receivable from travel agencies and deposits with hotels/resorts	— IFRS 9.5.5.17 — Hot topics: Q1 Economic events Potential impacts of economic disruption on expected credit losses under ASC 326 — Insights to IFRS 7.8.237.20	**Question:** **Does expected credit loss ("ECL") estimates need to be adjusted for the (i) credit rating of the airlines and (ii) uncertainty in economic environment?** — ECLs are a probability-weighted estimate of credit losses at the reporting date. Such an estimate needs to consider relevant possible future scenarios based on a range of expectations at the reporting date, using information available at that date. — If this happened **within financial year-end**, the ECL estimates need to be adjusted for. — If this happened **after financial year-end**, no adjustment for events occurring after the reporting date would usually be appropriate unless information received after the reporting date indicates that there was a failure to consider appropriately all information that was reasonable available at the reporting date. — However, if there is a possible material impairment loss in the subsequent reporting period resulting from new

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Covid-19 Effects	Relevant Accounts/ Disclosures	Accounting and Auditing Standard Guidance	Financial Reporting Considerations
			information available after the reporting date, a post balance sheet event disclosure would be appropriate.
Breach of loan covenants	— Borrowings	— IAS 1.69(d) — Insights to IFRS 3.1.40.110	— If the breach happened within financial year-end, - Waiver obtained within financial year-end: Borrowings continue to be classified as non-current - Waiver obtained after financial year-end (before the authorization date): Borrowings should be classified as current. Disclosures of waiver to be made. — Breach of loan covenants after financial year-end should be treated as an adjusting event and the related liability should be classified as current at the reporting date. — Review of agreements with credit card companies for changes in the timing of cashflows will require assessment.
Deferrals of ongoing/ planned investments	— Prepayment — Non-refundable deposits — Refundable deposits	— IAS 36 — IFRS 9 — IAS 28	— .Impairment indicators to be considered. — Where carriers have significant influence over other carriers and are applying associate accounting, the engagement team should consider whether any loans are likely to be repayable in the foreseeable future. If not, they should be treated as part of the equity interest.
Restructuring and employee entitlements	— Employee provisions; — Redundancy provisions — Annual lease / Employee entitlements	— IAS 37 — IAS 19	— Entities need to consider whether the criteria for recognition of redundancy provisions are met at the reporting date; — Entities need to consider future employee salary increase assumptions used in existing liability calculations (such as annual leave, having regard to changing circumstances). The "duration" of when annual leave is taken may also be impacted if airlines are forcing employees to utilize annual leave during the fleet grounding to levels which significantly impact duration assumptions and the related discounting of the liability; — Entities need to consider the appropriateness of any bonus provisions and remuneration disclosures.
Onerous lease provisions	— Other provisions	— IAS 37	— Entities need to consider whether onerous contracts have been triggered (e.g. if airlines are making strategic decisions regarding exiting of certain routes etc.).

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Covid-19 Effects	Relevant Accounts/ Disclosures	Accounting and Auditing Standard Guidance	Financial Reporting Considerations
Declines in profits/ losses	— Deferred tax assets	— IAS 12.35 and .36 — Insights to IFRS 3.13.360.10 — IAS 1.122 to 125	— Scrutiny needs to be placed on whether the 'future taxable profits' forecasted by management have considered the impact of COVID-19. — Disclosures of judgement and sources of estimation uncertainty involved in determining future taxable profits.
Alternative performance measures		— ESMA guidance on alternative performance measures – 2015	— Where alternative performance measures ("APMs") are used, disclosures in respect of any adjustment to those measures, particularly in providing issuers information on cash flow generation and underlying performance need to be considered. Engagement teams should consider whether other measures around liquidity and unencumbered assets, for instance, should be given more prominence.
Commissions	— Contract costs	— IFRS 15.94 — IFRS 15.101 — FASB ASC 606 — AICPA Audit and Accounting Guide, Revenue Recognition Chapter 10 Airlines	— Practical expedient to expense (amortization period is 1 year or less) may not be met.
Lease commitments			Some lease contracts contain clauses of default related with financial situation of the airlines, in order to prevent a bankruptcy. It is probable that lessors are sending "Reservation Right Letters" to protect their position, and the impact of these letters must be evaluated.
Impact in Control Environment of airlines			Reduction in staffs in the operational and administrative sides could affect significantly to the control environment in the airlines in this stress situation

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References

- IATA Press Release No. 18: [IATA pressroom 2020-03-24-01]
- COVID-19 impact on Aircraft Values (published by Ascend by Cirium): [Video]

Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly. Airlines 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.

Contact Us

Global Head of Aviation	Aviation Head - North America	Aviation Head - South America
Malcolm Ramsay	Randy Green	Eliseo Llamazares
malcolmramsay@kpmg.com.sg	rpgreen@kpmg.com	eliseollamazares@kpmg.com
+65 650 856 81	+1 214 840 2994	+56 229 971 275
KPMG in Singapore	KPMG in the US	KPMG in Chile
Aviation Head - India	**Aviation Head - Middle east**	**Aviation Head - China**
Ashwin Noronha	Avtar Jalif	Tina Wang
ashwinnoronha@kpmg.com	ajalif1@kpmg.com	tina.pj.wang@kpmg.com
+91 124 334 5428	+97 124 014 860	+86 203 813 8207
KPMG in India	KPMG in Abu-Dhabi	KPMG in China
Aviation Head - Europe	**Aviation Head - Africa**	
John Luke	Miesh-Al Gasant	
john.luke@kpmg.co.uk	miesh-algasant@kpmg.com	
+44 207 311 6461	+25 821 355 200	
KPMG in the UK	KPMG in Mozambique	
Aviation Head Japan	**Aviation Head - Australia**	
Tomoyoshi Inoue	Paul J, Foxlee	
Tomoyoshi.Inoue@jp.kpmg.com	pfoxlee@kpmg.com.au	
+81 335 485 802	+61 2 9335 7438	
KPMG in Japan	KPMG in Australia	

kpmg.com/socialmedia

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