Accounting implications of COVID-19: FAQ

IFRS – Swiss GAAP FER – Swiss Code of Obligations

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Content

Since March 2020 our lives have been significantly impacted by COVID-19. Despite our gradual return to some kind of normality, the effects of COVID-19 and state and private countermeasures are not over yet. Companies are affected in very different ways, which can lead to different accounting issues. This FAQ provides answers to frequently raised issues and complements the COVID-19 talk book.

The questions raised in this talkbook have been copied below at the beginning of each section for your convenience.

About this publication

Purpose and scope

This FAQ addresses accounting questions in accordance with International Financial Reporting Standards (IFRS), Swiss GAAP FER (FER) and Swiss Code of Obligations (CO). If a question is not applicable under one of these frameworks, no answer is provided.

Basis of preparation

IFRS and FER answers were drafted for *consolidated* financial statements, whereas CO answers focus on *stand-alone* financial statements.

Where applicable, external contributions dealing with specific COVID-19 related issues (e.g. the ones issued by EXPERTsuisse) were taken into consideration while drafting our answers.

IFRS answers follow the currently effective standards and interpretations issued by the International Accounting Standards Board, complemented by KPMG's interpretations. Our views on IFRS issues reflect the accounting treatments which would be expected in practice.

To compile FER and CO answers dealing with issues on which these frameworks are silent, the following guiding principles were used:

- FER: Swiss GAAP FER framework and the underlying principle of true & fair view
- CO: generally accepted accounting principles as well as core principles of CO accounting.

The views expressed in these FER and CO answers are based on internal discussions and reflect KPMG's view. However, other views might be also acceptable in practice.

In order to increase their clarity and understandability, the answers were drafted in a concise manner. As a result, they do not discuss every possible difference between frameworks in minor details but focus on 'the big picture'.

Questions and answers

Going concern

Does the going concern assessment cover a period of at least twelve months from the reporting date?

Do events or conditions cast significant doubt on the company's ability to continue as a going concern? For example, will there be insufficient liquidity and/or a breach of covenants?

How shall a company assess the going concern assumption?

IFRS, FER, CO

In assessing whether the going concern assumption is appropriate, management should take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the (interim) reporting period. The degree of consideration will depend on individual facts and circumstances.

Which evidence is necessary to support the going concern assumption at the end of a reporting period?

IFRS, FER, CO

The evidence for interim and annual financial statements is basically the same. Management should use updated budgets and forecasts, considering the possible mid and long-term impacts of COVID-19 (e.g. decreased sales and margins, impact on working capital and liquidity) and realistically possible responses. Different scenarios (including a plausible 'worst case' or 'stress test' scenario) might be needed to substantiate that the going concern assumption is appropriate.

What happens if events or conditions may cast significant doubt on the company's ability to continue as a going concern?

IFRS

There are two scenarios in which specific disclosures are required in a company's (interim) financial statements with regards to events or conditions that may cast significant doubt on a company's ability to continue as a going concern:

- Material uncertainties exist, i.e. after consideration of all available evidence (see above), management expects to be able to continue as a going concern, but cannot exclude the possibility that the company might not have sufficient liquidity or enough reserves to absorb future losses; or
- Management concludes that there are no material uncertainties but reaching that conclusion involves significant judgement (a 'close call').

FER, CO

If, after consideration of all available evidence (see above), management expects to be able to continue as a going concern, but there is significant doubt about the company's ability to do so (e.g. because it might not have sufficient liquidity or enough reserves to absorb future losses), specific disclosures must be provided in the company's (interim) financial statements.

IFRS, FER, CO

Companies should be aware that it is in their best interest to provide going concern disclosures where applicable and carefully draft them. Explicit disclosures are not required in cases where management can conclude without significant judgement that no material uncertainties exist.

What happens in the rare cases where the going concern basis of preparation is no longer considered appropriate?

IFRS

If, after consideration of all available evidence, management concludes that there is no realistic alternative but to liquidate the company or cease trading, the basis of preparation of the company's (interim) financial statements must be adjusted and appropriately explained. This requires application of the *general* measurement, recognition and disclosure requirements, with particular attention paid to the requirements for assets that are being held for sale, the classification of the company's debt and equity instruments, impairment testing and recognition and measurement of provisions.

FER, CO

If, after consideration of all available evidence, management concludes that there is no realistic alternative but to liquidate the company or cease trading, the company's (interim) financial statements must be prepared based on *liquidation* values. Appropriate explanations must be provided in the notes to these (interim) financial statements.

Intangible assets (including goodwill)

Are all recognition criteria for internally generated intangible assets still met? For example, are adequate funds available to complete the development?

Are there "inefficiencies" in developing internally generated intangible assets?

Is there any indication that an intangible asset (including goodwill) could be impaired?

Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for an intangible asset?

What are the potential impacts on the capitalization of internally generated intangible assets?

IFRS, FER, CO

Restrictive criteria govern the capitalization of expenses incurred to generate intangible assets internally. Some of them may no longer be met, for example the access to adequate financial resources to complete the development and/or to use or sell the intangible asset. If a company no longer fulfils the criteria for capitalization, amounts already recognized must be derecognized through profit or loss.

How are COVID-19-related inefficiencies impacting the cost value of internally generated intangible assets?

IFRS, FER, CO

The cost of an internally generated intangible asset includes all directly attributable expenses of preparing the asset for its intended use. The costs of identified inefficiencies are expensed as incurred.

Is there any impact on the computation of the amortization charge for intangible assets?

IFRS, FER, CO

It is not permitted to suspend the amortization of assets temporarily taken out of use (except if they are amortized based on the units-of-production method). The amortization charge for an intangible asset might change following a review of its useful life and/or residual value (if relevant).

Such a review is required in an (interim) period if the usage or retention strategy for the asset has changed.

Which intangible assets (including goodwill) must be tested for impairment during a(n) (interim) reporting period?

IFRS, FER, CO

All intangible assets (including goodwill) must be reviewed for indicators of impairment at the (interim) reporting date. If at least one indicator is identified, an impairment test must be performed.

IFRS

In addition, goodwill and intangible assets with indefinite useful lives or not yet available for use must be tested for impairment annually, irrespective of whether an indicator is identified.

Which kind of indicators are likely to trigger such impairment tests?

IFRS, FER, CO

The following indicators may be considered:

- temporary business interruptions and short-time working;
- decline in demand and sales prices;
- deterioration of the economic environment;
- planned restructuring;
- cost increases due to alternative procurement channels;
- increase in market interest rates; and
- carrying amount of equity exceeding market capitalization.

What should be considered if an impairment loss was recognised at an earlier reporting date?

IFRS, FER

At each reporting date, an entity assesses whether there is an indication that a previously recognised impairment loss on intangible assets (except for goodwill) has reversed. If there is such an indication, the recoverable amount must be determined, and the impairment loss is reversed where appropriate. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised in prior years.

OR

Previously recognised impairment losses can be retained, even if the reason for recognising the impairment loss no longer exists. In such cases, retained impairment losses qualify as hidden reserves.

If a company records a goodwill impairment in an interim period, can it be reversed at year-end if economic conditions improve?

IFRS

No, impairments on goodwill cannot be reversed in subsequent periods or at year-end.

FER

In the absence of specific guidance, if economic conditions improve at year-end, a company either continues to recognize a goodwill impairment charge recorded in an interim period or reverses it.

Property, plant & equipment (PPE)

Are there “inefficiencies” in constructing PPE?

Is there any indication that PPE could be impaired?

Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for an item of PPE?

IFRS, FER, CO

Similar considerations as for intangible assets (see above) apply.

Leasing (lessee)

Are there any rent concessions and/or changes to existing lease agreements?

Have expectations around lease renewal, termination or purchase options changed?

Is there any indication that right-of-use assets could be impaired?

Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for a right-of-use asset?

What does a company need to do if existing lease agreements (incl. the laws governing them) or agreed lease payments have been changed due to COVID-19?

IFRS

Changes to existing lease agreements and/or lease payments should be analyzed carefully to assess their accounting consequences. The IASB has issued educational material to support companies in this analysis.

FER

There is no specific guidance on accounting for changes in lease payments (including rent concessions). Their accounting consequences depend on the classification of the lease as either operating lease or finance lease. See answers to questions below.

CO

There is no specific guidance on accounting for leases. Acceptable accounting policies include:

- recognizing all leases on balance sheet (in accordance with IFRS 16);
- recognizing finance leases on balance sheet and keeping operating leases off balance sheet (in accordance with FER); or
- keeping all leases off balance sheet (i.e. applying the FER policy for operating leases to all leases).

The accounting consequences of changes in lease payments depend on the policy chosen, see answers to questions below.

What is the impact of rent concessions on lease accounting?

IFRS

Under IFRS 16, depending on the nature of a rent concession, a company would generally account for it in one of the following ways:

1. based on the requirements for derecognition of a part of the lease liability under IFRS 9 (e.g. if a lessor foregoes lease payments without being required to do so);
2. as a variable lease payment, i.e. as income in the period in which it arises (e.g. if a rent reduction results from an adjustment mechanism which is included in the original lease agreement or applicable law);
3. as a lease liability (e.g. if lease payments are only postponed); or
4. as a lease modification, i.e. a change in scope or consideration that was not part of the original terms and conditions of the lease but agreed following renegotiation between lessee and lessor.

Please refer to the next questions for the *optional* exemption regarding COVID-19 related rent concessions.[1]

FER

Operating lease: the lessee recognizes a reduced expense during the period of the rent reduction. However, lease expenses are not reduced if payments are only postponed.

Finance lease: the waived lease payments are derecognized from the lease liability through profit or loss. Contrary, any lease payments that are postponed will not be subject to derecognition.

CO

There is no specific guidance on accounting for leases. Acceptable accounting policies include:

- recognizing all leases on balance sheet (in accordance with IFRS 16);
- recognizing finance leases on balance sheet and keeping operating leases off balance sheet (in accordance with FER); or
- keeping all leases off balance sheet (i.e. applying the FER policy for operating leases to all leases).

The accounting consequences of rent concessions depend on the policy chosen. Please refer to the IFRS and FER answers above.

1 The following questions and answers which are specific to IFRS 16 also apply to Swiss CO if a company elects under Swiss CO to account for leases in accordance with IFRS 16.

What is the optional exemption regarding COVID-19 related rent concessions under IFRS? In which cases is it applicable?
IFRS
In response to the COVID-19 pandemic, the IASB has issued an amendment to IFRS 16 to allow *lessees* not to account for lease concessions as lease modifications if those lease concessions are a direct consequence of COVID-19 and meet the following conditions:
- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2022[2]; and
- no other substantive changes have been made to the terms of the lease.

The IASB requires lessees to apply the optional exemption consistently to all lease contracts with similar characteristics and in similar circumstances and introduced additional disclosures. Further information about the optional exemption and the accounting consequences can be found in our publication Leases – Rent Concessions.

Does the optional exemption under IFRS apply if a 'rent holiday' is linked to an equivalent increase of the lease term?
IFRS
This requires judgement. In some cases, lessors grant a limited period of rent holiday that is linked to an equivalent increase of the lease term at substantially equivalent payments. The IASB noted that such a rent holiday would qualify for the optional exemption if, for example, the rent holiday covers a period of three months.

What is meant by 'not to account for lease concessions as lease modifications'?
IFRS
The resulting accounting will depend on the details of the lease concession:
- Reductions in lease payments will generally be accounted for as (negative) variable lease payments and be recognized in profit or loss.
- Postponed lease payments do not result in variable lease payments. Instead, repayment of the lease liability is deferred. One acceptable approach is to remeasure the lease liability using the revised timing of the lease payments and an unchanged discount rate and to recognize the adjustment in profit or loss on the date the rent concession is effective. Another acceptable approach is to exclude the deferred portion from the effective interest method, i.e. no remeasurement of the lease liability or change to the effective interest method will occur. Under both approaches, no adjustment is made to the right-of-use asset.
- Combinations of reduced and postponed lease payments require a 'mixed' accounting (see above).
- Rent holidays linked to an equivalent increase in the lease term that are within the scope of the optional exemption (see question above) require a remeasurement of the lease liability using the revised timing of the lease payments and an unchanged discount rate. Any difference is recognized in profit or loss. No adjustment is made to the right-of-use asset.

When is the optional exemption under IFRS 16 effective?
IFRS
The original version of the practical expedient was effective for annual periods beginning on or after 1 June 2020, with earlier application (e.g. in the financial statements for 2020) permitted. In March 2021, the IASB decided to allow a one-year extension to the practical expedient. The extension is effective for annual periods beginning on or after 1 April 2021. Early application (e.g. in the financial statements for 2021) is permitted.
If an entity applies the original version of the practical expedient, then it also needs to apply the extension. Specific transition scenarios are discussed in our Leases – Rent Concession publication.

In which period are negative variable lease payments under IFRS recognized as income?
IFRS
Reductions in lease payments that are accounted for as negative variable lease payments are recognized as income when those reductions become unconditional. This requires consideration of all facts and circumstances.

Under which circumstances does a company need to adjust a right-of-use asset?
IFRS, CO[3]
In any case, irrespectively of whether it applies modification accounting or not, a company

2 The amendments issued in May 2020 introduced an optional practical expedient which was initially limited to reductions in lease payments due on or before 30 June 2021. In March 2021, the IASB decided to allow a one-year extension to the practical expedient to be applied to reductions in lease payments due on or before 30 June 2022.
3 This answer is only applicable under Swiss CO if a company elects to account for leases in accordance with IFRS 16. This answer is not applicable to finance leases under Swiss GAAP FER because a company recognizes PPE instead of a right-of-use asset.

affected by COVID-19 has to consider whether there is an indication that a right-of-use asset is impaired (see list of indicators above in the intangible assets section) and perform an impairment test if it identifies an indicator.

Does a company record a provision for an 'onerous' lease contract?

IFRS

Companies applying IFRS 16 would no longer record an IAS 37 provision for 'onerous' lease contracts which are recognized on the balance sheet. Instead, they might have to record an impairment on the corresponding right-of-use asset (see question above).

FER

Operating lease: a lessee may have to recognize a provision for onerous contracts (see section on provisions below for further details on provisions for onerous contracts).
Finance lease: assets from finance leases are recognized as property, plant and equipment. Such assets are subject to impairment testing, not provisions for onerous contracts (see section on intangible assets above for further details on impairment testing).

CO

There is no specific guidance on accounting for leases. Acceptable accounting policies include:

- recognizing all leases on balance sheet (in accordance with IFRS 16);
- recognizing finance leases on balance sheet and keeping operating leases off balance sheet (in accordance with FER); or
- keeping all leases off balance sheet (i.e. applying the FER policy for operating leases to all leases).

The accounting consequences of 'onerous contracts' depend on the policy chosen. Please refer to the IFRS and FER answers above.

When might a lessee reassess renewal, termination or purchase options and what happens if it revises its expectations on whether or not to exercise such options?

IFRS

A lessee reassesses the lease term only on the occurrence of a significant event or a significant change in circumstances that is within its control and that directly affects whether it is reasonably certain to exercise a renewal option (or not to exercise a termination option). Examples of such events that may arise as a consequence of the COVID-19 pandemic include workforce reductions or increased voluntary use of home office leading to a decrease in the need for leased offices or workspaces.
If a lessee revises its expectations then the lessee remeasures its lease liability using a revised discount rate. The lessee adjusts the carrying amount of the right-of-use asset for the remeasurement of the lease liability, unless the carrying amount of the right-of-use asset is reduced to zero, in which case any further reductions are recognized in profit or loss.

FER

There is no specific guidance on the reassessment of and the accounting for renewal, termination or purchase options (e.g. whether a renewal option should be considered for the initial recognition of a finance lease). The appropriate accounting should be determined based on the FER framework and specific facts and circumstances.

CO

There is no specific guidance on accounting for leases. Acceptable accounting policies include:

- recognizing all leases on balance sheet (in accordance with IFRS 16);
- recognizing finance leases on balance sheet and keeping operating leases off balance sheet (in accordance with FER); or
- keeping all leases off balance sheet (i.e. applying the FER policy for operating leases to all leases).

The accounting consequences of revised expectations around lease renewal, termination or purchase options depend on the policy chosen. If the company decided to keep all leases off balance sheet, the question is not relevant. For the other two alternatives, please refer to the IFRS and FER answers above.

What should be considered if an impairment loss was recognised for a right-of-use asset at an earlier reporting date?

IFRS, OR[4]

Similar considerations as for intangible assets (see above) apply.

4 This answer is only applicable under Swiss CO if a company elects to account for leases in accordance with IFRS 16. This answer is not applicable to finance leases under Swiss GAAP FER because a company recognizes PPE instead of a right-of-use asset.

Investment properties/lessors

Is the cost model applied? If so, is there any indication that a leased out asset could be impaired or that an impairment loss recognized previously may have decreased or no longer exists?

Are there any rent concessions granted to the lessee?

If properties are accounted for under the cost model, which impairment indicators should be watched for at the end of a(n) (interim) reporting period?

IFRS, FER, CO

The indicators listed above in the intangible assets section also apply to investment properties in the cost model.

What should be considered if an impairment loss was recognized previously and the investment property is accounted for under the cost model?

IFRS, FER, CO

Similar considerations as for intangible assets (see above) apply for investment property accounted for under the cost model.

The IASB issued an optional exemption regarding COVID-19 related rent concessions. Does it apply to lessors?

IFRS

No, the optional exemption (see section 'Leasing (lessee)' above) applies only to lessees. Lessors are required to continue to assess if a rent concession related to COVID-19 is a lease modification and account for them accordingly.

Associates & joint ventures

Is there any indication that the carrying amount could be impaired or that an impairment loss recognized previously may have decreased or no longer exists?

Which impairment indicators should be watched for at the end of a(n) (interim) reporting period?

IFRS

IAS 28 contains examples of specific events that provide objective evidence of impairment for investments in an associate or joint venture accounted for under the equity method (besides more general impairment indicators similar to some of the IAS 36 indicators listed above in the intangible assets section). These 'loss events' revolve around a significant financial difficulty of the investee (e.g. breach of contract such as a payment default, need for concessions to investees, probable bankruptcy).

FER

Joint ventures are accounted for using either the proportionate consolidation method or the equity method. Associates must be accounted for using the equity method. The general impairment indicators for assets (see examples above in the intangible assets section) apply to:

- investments accounted for at equity; and
- individual assets proportionally consolidated.

In addition, the specific 'loss events' mentioned in IAS 28 (see IFRS answer above) might also be considered for equity-accounted investments.

What should be considered if an impairment loss was recognised at an earlier reporting date?

IFRS, FER

At each reporting date, an entity assesses whether there is an indication that a previously recognised impairment loss has reversed. If there is such an indication, the recoverable amount must be determined, and the impairment loss is reversed where appropriate. Any impairment loss with respect to an equity-accounted investee is subsequently reversed only to the extent that the recoverable amount of the investment increases.

FER
For joint ventures accounted for using the proportionate consolidation method, similar considerations as for intangible assets (see above) apply.

Financial assets & hedging

Are expected credit loss assumptions (e.g. provision matrices) reflecting past events and current conditions as well as expected future economic conditions?

Are fair values[5] determined based on the information as at the (interim) reporting date?

Is cash flow hedging applied? If so, are there any forecast transactions (e.g. sales or purchases) that are no longer highly probable?

What is the impact of the current situation on the measurement of expected credit losses (ECLs)?
IFRS
ECLs are measured based on information about past events, current conditions and forecasts of future economic conditions, which should be updated at each reporting date. Forecasting future economic conditions requires judgment. For example, many corporates are computing ECLs for trade receivables by using provision matrices derived from past loss experience and must incorporate forward-looking information into these matrices at their next reporting date. Amongst others, companies shall consider the following factors when updating their ECL computations:

- Increased uncertainty about potential future economic conditions may require to explicitly consider additional economic scenarios.
- Certain types of customers, industries or regions may be particularly severely affected.
- Governments and central banks set up measures to mitigate the adverse impact of COVID-19.

FER, CO
Significant receivables must be valued individually. The remaining ones may be valued using a general bad debt allowance, which must be based on past experience. ECL models which are compliant with IFRS (see IFRS answer above) may be used to compute this general allowance.
Amongst others, companies shall consider the following factors when updating their receivables allowance computations:

- The uncertainty about potential future economic conditions has increased.
- Certain types of customers, industries or regions may be particularly severely affected.
- Governments and central banks set up measures to mitigate the adverse impact of COVID-19.

Which challenges is a company facing when computing fair values in a volatile environment?
IFRS, FER, CO
A company is facing significant challenges when computing fair values in a volatile environment, especially when determining any necessary risk adjustments to unobservable inputs. It must bear in mind that fair value is reflecting market conditions at the measurement date, i.e. the (interim) period end date. Use of hindsight or adjusting for what may be viewed as depressed pricing at the measurement date in light of subsequent changes in market prices is not permitted. If a quoted price in an active market is available at the end of the (interim) period, then it provides the most reliable evidence of fair value and must be used.

How is hedge accounting impacted when the probability of occurrence of forecast transactions changes as a result of COVID-19?
IFRS
Whether a forecast transaction is highly probable to occur must be reassessed at each reporting date. Owing to COVID-19 there may still be reductions and/or shifts in actual and forecast volumes of transactions in many regions and industries (e.g. jet fuel purchases). As a result, some hedge ineffectiveness might occur and/or some hedge accounting relationships may need to be (partially) discontinued. If a forecast transaction is no longer (fully) expected to occur and the hedge relationship is (partially) discontinued, the (respective portion of the) accumulated gains or

5 Throughout this FAQ we use the term 'fair value' when referring to 'fair value' (IFRS), 'actual value' (Swiss GAAP FER) and 'quoted price'/'market price' (Swiss CO).

losses on the hedging instrument need(s) to be immediately reclassified to profit or loss.

FER

Whether a forecast transaction is highly probable to occur must be reassessed at each reporting date. Owing to COVID-19 there may still be reductions and/or shifts in actual and forecast volumes of transactions in many regions and industries (e.g. jet fuel purchases). If forecast transactions are no longer (fully) expected to occur and the hedge relationship is (partially) discontinued,
the accounting consequences depend on the accounting policy chosen by a company:

- If the company has elected to recognize cash flow hedges in equity: the (respective portion of the) accumulated gains or losses on the hedging instrument need(s) to be immediately reclassified from equity to profit or loss;
- If the company has elected to disclose the hedging instrument in the notes (i.e. not to recognize it on balance sheet): the (respective portion of the) hedging instrument must be recognized in the balance sheet with a corresponding entry in profit or loss.

CO

Whether a forecast transaction is highly probable to occur must be reassessed at each reporting date. Owing to COVID-19 there may still be reductions and/or shifts in actual and forecast volumes of transactions in many regions and industries (e.g. jet fuel purchases). If forecast transactions are no longer (fully) expected to occur and the hedge relationship is (partially) discontinued, the imparity principle applies: the (respective portion of the) accumulated losses on the hedging instrument must be recognized immediately while accumulated gains are only recognized upon realization.

How might higher credit risks affect hedge effectiveness?

IFRS

COVID-19 could have increased credit risk. When assessing hedge effectiveness, a company needs to consider the effect of changes in both counterparty credit risk and own credit risk. If there is an increase in the credit risk of a hedging instrument, then fair value changes due to the increased credit risk are not generally offset by changes in the value of the hedged item attributable to the hedged risk. This might lead to increased ineffectiveness or even failure of the effectiveness requirements.

How are irrecoverable losses accumulated in the cash flow hedge reserve (e.g. on future purchases of inventory) to be accounted for?

IFRS, FER[6]

If the amount accumulated in the cash flow hedge reserve for a particular cash flow hedge is a loss and the company expects that all or a portion of that loss will not be recovered in future periods, then it immediately reclassifies to profit or loss the amount that is not expected to be recovered. For example if a company is hedging future purchases of inventory and may not recover a loss on the hedging instrument through expected sales of those items.

6 Under the assumption that a company has elected under Swiss GAAP FER to recognize cash flow hedges in equity.

Inventories

Is production at below normal capacity?

Has demand for goods and products declined?

Have costs increased?

Have estimated selling prices decreased?

What is the impact of the current situation on production costs?
IFRS, FER, CO
Production costs of inventory include all direct costs (such as labor, material and direct overheads) and an allocation of fixed and variable production overheads. Fixed production overheads must be allocated based on the normal capacity of a production facility. Therefore, if production has been reduced due to the current situation, only part of the fixed production overheads can be allocated to the cost of inventory.

Which other impacts need to be considered when measuring inventory?
IFRS, FER, CO
Inventory is measured at the lower of cost and net realizable value. The following factors may for example affect this measurement and lead to write-downs of inventory:

- Increased costs due to use of local suppliers.
- Net realizable value may have decreased due to lower estimated selling prices and/or increased estimated additional costs of completion.
- Reduced demand may result in inventories being no longer recoverable due to technical, seasonal or physical obsolescence.

Tax assets & liabilities

Are there any incurred tax losses?

Are there any changes to budgets and/or tax planning opportunities which might lead to a reassessment of existing deferred tax assets?

Are there changes to tax laws?

Are additional dividends from subsidiaries planned?

Are there any uncertainties over income tax?

How to account for government assistance that is related to income tax?
IFRS
Government assistance in the form of benefits that impact a company's taxable profit or its income tax liability – e.g. tax reliefs for certain types of income, additional tax deductions, a reduced tax rate or an extended period to use tax losses carried forward – are generally accounted for by applying the guidance for income tax, not government grants.

How to account for uncertainties over income tax treatments, e.g. from transfer pricing arrangements?
IFRS, FER, CO[7]
A company should apply the requirements of IFRIC 23 Uncertainty over Income Tax Treatments. It must first assess whether it remains *probable* that the tax authorities accept its tax treatments, considering any new tax laws and profitability. If it concludes that it is no longer probable, management must reflect this uncertainty in determining the related taxable profit/loss, tax bases, unused tax losses and tax rates, by using the most likely amount or the expected value method.

7 Even though the IFRS concept of 'Uncertainty over Income Tax Treatments' does not exist in Swiss GAAP FER and Swiss CO, similar considerations may be applied.

What do companies need to consider if they plan additional dividends from their subsidiaries?
IFRS, FER
Changes in a company's plans to repatriate or distribute profits of a subsidiary may trigger the recognition of a deferred tax liability.

When can a company recognize deferred tax assets?
IFRS, FER
To assess the recoverability of deferred tax assets (on both deductible temporary differences and unused tax losses[8]/credits), a company first considers the availability of qualifying taxable temporary differences, and then the probability of other future taxable profits and tax planning opportunities (see below).
In other words, even a company that is loss-making will recognize a deferred tax asset if it has sufficient qualifying taxable temporary differences to meet the recognition test.

How does the current situation affect a company's assessment of the recoverability of its deferred taxes?
IFRS, FER
Projections of future taxable profits may be impacted by the following factors:
- changes in forecast cash flows (e.g. expected decrease in production or sales prices or increase in costs – see section on inventories above);
- changes in a company's tax strategies;
- substantively enacted changes to the income tax law introduced as part of a government's measures in response to COVID-19 (e.g. tax reliefs for certain types of income, additional tax deductions, a reduced tax rate or an extended period to use tax losses carried forward);
- changes in qualifying taxable temporary differences (e.g. impairments on internally generated intangible assets – see section on intangible assets above); and
- changes in a company's plans to repatriate or distribute profits of a subsidiary (see above).

Provisions

Could penalties be incurred (e.g. due to delayed delivery or non-performance under delivery contracts)?

Are there any onerous contracts?

Are there any planned restructurings? If so, does a detailed formal restructuring plan exist and were valid expectations raised that the plan will be carried out?

When to recognize a provision for expected penalties?
IFRS, FER, CO
A provision for expected penalties is recognized only if the penalties are based on an existing present obligation which cannot be avoided and the related outflow can be reliably estimated. Hence, companies need to review their existing contracts and consider the interpretation of applicable law, particularly force majeure clauses, to determine whether they have an obligation triggered by COVID-19. The outbreak may be regarded as force majeure, and penalties for non-performance, late delivery or cancellation may be waived.

Is it necessary to recognize a provision for possible fines if the company violates conditions attached to the COVID-19 bridging loan?
IFRS, FER, CO
No. Any fines in respect of Swiss COVID-19 bridging loans (please refer to section "Financial liabilities" below) are imposed on the responsible natural person. It is not possible to take recourse to the company, i.e. such fines do not constitute a damage eligible for compensation under civil law.

8 Under the assumption that a company has elected to recognize deferred tax assets on unused tax losses under Swiss GAAP FER (which allows a company to choose whether or not to recognize deferred tax assets on unused tax losses).

When to recognize a provision for onerous contract?

IFRS, FER, CO[9]

A provision for onerous contract is recognized if the unavoidable costs of meeting the obligation exceed the economic benefits expected to be received under the contract. The unavoidable costs are the lower of the net costs of fulfilling the contract and the cost of terminating it. When assessing the unavoidable costs, companies should consider the contract terms carefully, including termination and force majeure clauses. In addition, they must ensure that their assumptions on costs and benefits for the onerous contract test are consistent with their budgets and forecasts.

Please remember: before recognizing a provision for an onerous contract, a company needs to test all assets dedicated to the contract for impairment.

When to recognize a restructuring provision?

IFRS

In order to reduce costs and cash outflows, companies may be planning future restructurings. Both of the following conditions must be met before a restructuring provision is recognized:

- There is a detailed formal restructuring plan; and
- Before the end of the (interim) reporting period, valid expectations have been raised in those affected that the plan will be carried out.

FER, CO

In order to reduce costs and cash outflows, companies may be planning future restructurings. A restructuring provision can only be recognized in the (interim) financial statements of a company if the restructuring plan has been approved before the end of the (interim) reporting period and communicated to those affected before approval of these (interim) financial statements. For listed companies, the resolution to carry out a major restructuring generally is subject to ad hoc publicity and must be communicated immediately after the resolution has been passed.

Financial liabilities

Are there any covenant breaches?

Have lenders waived the application of covenants?

Are there any adjustments to existing loan agreements?

Are there any (new) loans that could include a government grant?

What happens if there is a breach of covenant?

IFRS, FER, CO

A significant deterioration in the company's operating results and financial position may cause breaches of debt covenants or trigger subjective covenant clauses (e.g. material adverse change clauses).

When a company breaches a covenant of a long-term loan on or before the (interim) reporting date such that the liability becomes repayable on demand, it classifies the liability as current.

Is it possible to 'cure' this breach?

IFRS

Yes. If by the (interim) reporting date the company obtains from the lender an agreement to provide a grace period ending at least twelve months after the (interim) reporting date, then the liability continues to be classified as non-current. Please note: If the company obtains this agreement only after the (interim) reporting date, the liability is classified as current at the (interim) reporting date.

FER, CO

Yes. If by the date of approval of the (interim) financial statements the company obtains from the lender an agreement to provide a grace period ending at least twelve months after the (interim) reporting date, then the liability continues to be classified as non-current.

9 Even though the IFRS concept of an 'onerous contract' does not exist in Swiss GAAP FER and Swiss CO, similar considerations need to be applied.

Which disclosures apply with regards to defaults and breaches of covenants?

IFRS

Specific disclosure requirements apply to defaults and breaches on loan payables. These include:

- details of any defaults during the period;
- the carrying amount of the loans payable in default at the end of the reporting period; and
- whether the default was remedied or the terms of the loans payable were renegotiated before the financial statements were authorized for issue.

What is the impact of changes to the terms of a liability?

IFRS

Borrowers may approach lenders to ask for concessions on the current terms of their borrowings, e.g. delayed repayment of interest or principal, or a reduction in the interest rate. The accounting consequences of changes to the terms of a liability depend on whether there is a substantial modification:

- Substantial modification: the original liability is derecognized and a new financial liability recognized. The new liability is recorded at fair value and any difference from the carrying amount of the extinguished liability, including any non-cash consideration transferred, is recorded in profit or loss. Any costs or fees incurred are generally included in profit or loss, too.
- No substantial modification: the amortized cost of the liability is recalculated as the present value of the estimated future contractual cash flows, discounted at the original effective interest rate. The resulting gain or loss is recognized in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial liability and are amortized over its term.

FER

Borrowers may approach lenders to ask for concessions on the current terms of their borrowings, e.g. delayed repayment of interest or principal, or a reduction in the interest rate. Liabilities are normally recognized at nominal value. In such cases, changes to the terms of a liability only have an impact on profit or loss in future periods.
Measuring financial liabilities at amortized cost is also acceptable. If a company measures financial liabilities at amortized cost, changes to the terms of a liability are accounted for as follows:

- The amortized cost of the liability is recalculated as the present value of the estimated future contractual cash flows, discounted at the original effective interest rate.
- The resulting gain or loss is recognized in profit or loss.
- Any costs or fees incurred adjust the carrying amount of the modified financial liability and are amortized over its term.

CO

Borrowers may approach lenders to ask for concessions on the current terms of their borrowings, e.g. delayed repayment of interest or principal, or a reduction in the interest rate. Interest-bearing liabilities are recognized at nominal value. Changes to the terms of a liability therefore only have an impact on profit or loss in future periods.

How to determine whether there is a substantial modification?

IFRS

To determine whether a modification of terms is substantial, a borrower performs a quantitative assessment, i.e. a 'ten percent test'. If the difference in the present values of the cash flows under the new vs. the original terms is less than ten percent, then the modification is not substantial unless substantial differences in terms are identified following a qualitative assessment.

Is a government grant included in a COVID-19 loan?

IFRS

In order to provide companies with liquidity to mitigate the current situation, governments are providing or guaranteeing loans. Those loans include a government grant if they are provided at a below-market rate of interest and the borrower's operating activities need to comply with certain conditions. In Switzerland, companies that were affected by the consequences of the COVID-19 pandemic were able to obtain transitional bank loans (bridging loans) of up to 10% of their revenues up to a maximum loan amount of CHF 20 million. These loans include a government grant because:

- They are guaranteed by the Swiss government;
- The Swiss government predetermined their significant terms and conditions; and
- They are only granted in return for past compliance with the eligibility criteria as well as future compliance with certain conditions.

FER, CO

In order to provide companies with liquidity to mitigate the current situation, governments are providing or guaranteeing loans. In Switzerland, companies that were affected by the consequences of the COVID-19 pandemic were able to obtain transitional bank loans (bridging loans) of up to 10% of their revenues up to a maximum loan amount of CHF 20 million.

There is no specific guidance on government grants in FER and CO. The accounting for COVID-19 bridging loans under these frameworks is described in the following answers.

How to account for COVID-19 bridging loans?

IFRS

Such a loan is initially recognized at fair value, i.e. the present value of the expected future cash flows discounted at a market-related interest rate. The government grant component (see next question) is measured as the difference between the fair value of the loan on initial recognition and the amount received.

Subsequently, the loan is generally classified as measured at amortized cost. I.e. companies apply the effective interest rate method to subsequently account for the loan component.

FER

Liabilities are normally recognized at nominal value. However separating the loan and grant components and initially recognizing the loan at fair value is also acceptable. If this treatment is elected:

- The loan component is initially recognized at fair value, i.e. the present value of the expected future cash flows discounted at a market-related interest rate.
- The government grant component (see next question) is measured as the difference between the fair value of the loan on initial recognition and the amount received.
- The loan component is subsequently measured at amortized cost, i.e. companies apply the effective interest rate method.

CO

COVID-19 bridging loans represent interest-bearing liabilities, which must be recognized at nominal value.

How to account for the government grant component of COVID-19 bridging loans?

IFRS, FER[10]

The government grant is recognized as deferred income when there is reasonable assurance that the company will comply with the conditions attached to the loan and the loan has been paid to the company. The appropriate subsequent accounting for the grant component requires an assessment of the nature and purpose of the grant. Swiss COVID-19 loans were intended intended to provide immediate liquidity at reduced financing costs. Therefore, the grant component should be subsequently recognized in profit or loss in line with the effective interest on the loan component.

Taking into consideration the nature of the grant, it would be appropriate to present the grant within interest expense to offset/reduce the impact of the effective interest recognized for the loan component. Alternatively, IAS 20 allows presenting the grant as 'other income'.

What happens if the company subsequently expects an earlier redemption of the COVID-19 bridging loan?

IFRS, FER[11]

Companies may terminate a COVID-19 bridging loan at any time with immediate effect. This could be relevant if the financial situation of a company recovered and the company wants to distribute dividends.

As mentioned above, COVID-19 bridging loans are generally classified as measured at amortized cost. If there is a change in the timing of estimated cash flows (due to an actual or intended early termination), then the amortized cost of the loan is adjusted in the period of change to reflect the revised estimated cash flows, with a corresponding interest income or expense being recognized in profit or loss. The revised amortized cost of the loan is recalculated by discounting the revised estimated future cash flows at the loan's original effective interest rate. Because the government grant component is recognized in profit or loss in line with the effective interest on the loan component, a corresponding adjustment is made to the deferred income from the government grant.

10 Under the assumption that a company has elected under Swiss GAAP FER to separate the loan and grant components (see question above).

11 Under the assumption that a company has elected under Swiss GAAP FER to separate the loan and grant components (see question above).

However, an intended early termination of the COVID-19 bridging loan does not impact its balance sheet classification. The loan is classified as non-current liability if at the end of the reporting period the remaining contractual term is longer than twelve months. Before the early termination is declared, the company has an unconditional right to change its intention and avoid early repayment.

FER[12], CO
Companies may terminate a COVID-19 bridging loan at any time with immediate effect. This could be relevant if the financial situation of a company recovered and the company wants to distribute dividends.
An intended early termination of the COVID-19 bridging loan does not impact its balance sheet classification. The loan is classified as non-current liability if at the end of the reporting period the remaining contractual term is longer than twelve months. Before the early termination is declared, the company has an unconditional right to change its intention and avoid early repayment.

What happens if the company violates conditions attached to the COVID-19 bridging loan?
IFRS, FER, CO
If the company violates conditions attached to the COVID-19 bridging loan (e.g. by distributing dividends), the loan becomes repayable on demand. This will require classification of the loan as a current liability.
Please refer to section 'Provisions' above for a discussion of possible fines. Please refer to question 'Is it possible to 'cure' this breach?' for a discussion of possible grace periods.

IFRS, FER[13]
In addition, the unamortized portion of the deferred income from the government grant component is reclassified into the carrying amount of the loan. Any remaining difference between the carrying amount of the loan and the amount repayable on demand is recognized in profit or loss (interest expense).

Pension obligations

Is the company financing employee pension plan contributions via the employer contribution reserve?

How does a company account for employee pension plan contributions which are financed via the employer contribution reserve ('Arbeitgeberbeitragsreserven' or 'AGBR' in German resp. 'réserves de cotisations d'employeur' or 'RCE' in French) as allowed by the COVID-19 Ordinance on pension plans?
FER
The employer contribution reserve has to be recognized as a financial asset. If the company finances employee contributions via the employer contribution reserve, it reduces this financial asset with a corresponding entry to personnel expenses.

CO
The employer contribution reserve is usually kept off balance sheet, i.e. represents hidden reserves. In such cases, if a company finances employee contributions via the employer contribution reserve, it reduces the total amount of hidden reserves and records one of the following entries in profit or loss:
- a corresponding reduction of personnel expenses; or
- a corresponding extraordinary income.

12 Under the assumption that a company has elected under Swiss GAAP FER to recognize the loan at nominal value (see question above).
13 Under the assumption that a company has elected under Swiss GAAP FER to separate the loan and grant components (see question above).

Employee stock options and bonus agreements

Is it necessary to adjust expectations regarding satisfaction of service and non-market performance conditions?

Is it necessary to adjust expectations regarding satisfaction of service and non-market performance conditions?

IFRS, FER, CO[14]

It depends. The grant of share-based payments and bonus payments may depend on employees meeting certain service conditions (e.g. continued employment) and/or non-market performance conditions such as the company meeting certain EBITDA or revenue targets.

The current situation could change expectations about whether these conditions will be met. If so, extrapolating previous estimates of the number of awards expected to vest is not appropriate.

Revenue[15]

Are there any contracts that may no longer be enforceable (e.g. due to force majeure clauses)?

Are there any contracts where it is no longer probable that consideration will be collected?

Are there any changes in the scope and/or price of contracts?

Are existing estimates of variable consideration (e.g. rebates, refunds, price concessions, performance bonuses, penalties) still appropriate?

Are there any changes to stand-alone selling prices?

Is revenue recognized over time and based on input measures?[16] If so, are they still appropriate and have expectations been updated if necessary?

What happens if contracts are no longer enforceable?

IFRS

Under IFRS 15 companies account for a contract with a customer only when the agreement creates enforceable rights and obligations. This applies equally to *new* and *existing* contracts, because companies may need to reassess whether the contract existence criteria continue to be met.

Force majeure or similar clauses or law may allow customers to break existing contracts. In such cases, revenue can no longer be recognized for such contracts.

FER, CO

If a contract is no longer enforceable (e.g. because force majeure or similar clauses or law allow customers to break existing contracts), revenue can no longer be recognized.

14 Even though the term ‘non-market performance conditions’ does not exist in Swiss GAAP FER and Swiss CO, such conditions also need to be considered under these frameworks.

15 Even though IFRS concepts such as ‘performance obligation’, ‘variable consideration’ and ‘constraint’ do not exist in Swiss GAAP FER and Swiss CO, similar considerations need to be applied when determining revenue under these frameworks.

16 Under Swiss GAAP FER this applies in particular to long-term contracts.

What happens if it is no longer probable that the customer will pay for the goods and services to be delivered?

IFRS, FER, CO

If payment is no longer probable at the time a performance obligation is satisfied, a company cannot recognize revenue.

What happens if the parties agree to a reduction in goods or services to be delivered? What happens if they agree to a reduction in prices?

IFRS

The normal contract modification rules of IFRS 15 apply. Hence, the reduction will require an adjustment to the amount of revenue that is recognized for the remaining performance obligations.

FER, CO

There is no specific guidance on accounting for contract modifications. The reduction will require an adjustment to the amount of revenue that is recognized for goods and services not yet delivered or performance obligations not yet satisfied under the percentage of completion method.

What is variable consideration?

IFRS, FER, CO

Variable consideration comes in many different forms and it can be explicit or implicit, e.g. based on the company's customary business practices or specific statements. Examples include discounts, rebates, refunds, price concessions, performance bonuses and penalties.

What should be considered for contracts that include variable consideration?

IFRS, FER, CO

When recognizing revenue, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur.
Management's estimate of this 'constrained' amount must be reassessed at each reporting date. The following factors may impact management's next estimates of the transaction price:

- Falling demand may impact whether customers will qualify for rebates or volume discounts;
- Economic uncertainty may impact whether customers ask for refunds;
- Logistic challenges or disruptions to operations may impact whether penalties for delayed or non-performance occur; and
- Companies may offer additional concessions to stimulate sales.

What happens if stand-alone selling prices are adjusted to stimulate sales (or for any other reason)?

IFRS, FER, CO

Revenue for contracts with multiple performance obligations is allocated to the different performance obligations based on their relative stand-alone selling prices at contract inception[17]. Therefore, when accounting for such new contracts, companies need to ensure that they use up-to-date (estimates of) stand-alone selling prices.

What should be considered when input measures are used for recognition of revenue over time?

IFRS, FER, CO

When a company uses an input method to measure progress (e.g. costs incurred as a percentage of expected total costs), it needs to estimate the total expected inputs that will be needed to satisfy the performance obligation. COVID-19 may impact project timelines if work cannot be completed to schedule. It may also push up the costs of key inputs. Companies need to ensure that the estimated progress and revenue recognized reflect the latest expectations. Any changes in this estimate are accounted for prospectively.

17 The IFRS 15 guidance on allocating revenue for contracts with multiple components is also an acceptable approach under Swiss GAAP FER and Swiss CO.

Other income

Is there any insurance against losses triggered by the COVID-19 outbreak?

Have non-refundable contributions been granted?

What are the requirements for recognizing income and receivables for insurance claims?

IFRS

The requirements are different for claims that relate to recognized provisions (e.g. compensation for late delivery penalties) and claims that compensate for business interruptions.
Claims related to provisions are treated as reimbursement rights under IAS 37 and recognized when recovery is virtually certain (i.e. probability of recovery is close to 100%).
Claims related to business interruptions are recognized when the interruption occurred and the insurer does not dispute the claim.

FER, CO

Income and receivables for insurance claims are recognized when the underlying insured event occurred and the insurer does not dispute the claim.

How to account for non-refundable (à fonds perdu) contributions?

IFRS

The COVID-19 Ordinance on hardship cases provides that hardship measures may take the form of non-refundable contributions. Such government grants are recognized (at the reporting date) when there is reasonable assurance that the company will comply with the relevant conditions and the grant will be received. The grant is recognized in profit or loss to the extent that the expenses/losses to be compensated have been incurred. The specific expenses/losses to be compensated by the non-refundable contribution are to be determined by an individual assessment. In the statement of profit or loss, the grants may be presented on a gross basis or (if the expenses to be compensated are clearly identifiable) on a net basis.

FER, OR

The COVID-19 Ordinance on hardship cases provides that hardship measures may take the form of non-refundable contributions. Such government grants are recognized if the conditions for entitlement are met as of the reporting date and the company-specific official approval has been obtained until the financial statements are authorized for issue. The grant is recognized in profit or loss to the extent that the expenses/losses to be compensated have been incurred. The specific expenses/losses to be compensated by the non-refundable contribution are to be determined by an individual assessment. In the statement of profit or loss, the grants are presented within extraordinary income or other operating income.

IFRS, FER, OR

If the company subsequently violates any conditions attached to the non-refundable contribution and the grant therefore must be repaid, the repayment obligation must be recognized as an expense.

Personnel expenses

Was short-time work compensation received?

How to account for short-time work compensation?

IFRS, FER

Under Swiss law, employees are the beneficiaries of short-time work compensation. Employers are required to pass on the benefits they receive from the state.
Within the Swiss accounting profession there is no consensus on whether companies should use a gross or net presentation in their statement of profit or loss.
Because legally only the employees are entitled to the compensation paid by the state, we prefer net presentation in the statement of profit or loss. When applying a net presentation, the compensation received from the state is offset against the related personnel expenses.

CO

Under Swiss law, employees are the beneficiaries of short-time work compensation. Employers are required to pass on the benefits they receive from the state.

Compensation received from social insurance schemes (including short-time work compensation) is presented as a reduction in personnel expenses. It reduces the salary payments that a company must make on its own and generally does not represent income. Material amounts which are offset must be disclosed in the notes to the financial statements as a breakdown of profit or loss line items.

Is it possible to recognise a claim for reimbursement of short-time work compensation by the unemployment insurance?

IFRS, FER, CO

Yes. The unemployment insurance covers a proportion of the salary costs of employees affected by short-time work. However, companies that applied for short-time work compensation are still required to make salary payments to their employees and must subsequently apply to the unemployment insurance for a proportionate refund.

It appears that a claim against the unemployment insurance is recognised in accordance with the monthly payments made to the employees, if all eligibility criteria are met at the reporting date and the reimbursement application has been submitted or it is virtually certain that it will be submitted in due time.

Profit & loss items related to COVID-19

Is it allowed to separately present the impact of COVID-19 on profit or loss (e.g. as an 'extraordinary' item)?

Is it allowed to present the impact of COVID-19 as an 'extraordinary' item?

IFRS

No. The presentation of items of income and expense as 'extraordinary items' in the statement of profit or loss or in the notes is prohibited.

FER, CO

To qualify as 'extraordinary items' under FER, income and expenses must arise extremely rarely in the context of ordinary operations and must not have been predictable. Similarly, under CO, 'extraordinary items' are unusual income and expenses that are one-off items or not directly related to the ordinary operations.

Specific income/expense related to COVID-19 might meet those requirements according to EXPERTsuisse, provided that both of the following conditions are fulfilled:

- The income/expense is a direct, immediate consequence of measures to contain COVID-19, especially when these measures were recommended or imposed by a government.
- The income/expense is incremental and would not have been incurred in the company's ordinary operations (incl. COVID-19 related impairments).

How about other approaches to present the impact of COVID-19 on the profit or loss for the period?

IFRS, FER, CO

Reflecting the impact of COVID-19 in profit or loss (i.e. on the face or in the notes) involves significant judgement. A company shall consider:

- its specific facts and circumstances; and
- its ability to determine these impacts on a non-arbitrary basis (i.e. to quantify them reliably).

When determining the impacts of COVID-19, a company should consider as COVID-19-related only the income and expenses that are incremental and directly attributable to COVID-19.

For further details see our article. Overall, sufficient and appropriate explanations must be provided in the notes to the (interim) financial statements. Presenting a notional *revenue* number (e.g. 'expected revenue before COVID-19 effects') on the face of the statement of profit or loss, and then adjusting for the effect of COVID-19 to arrive at the actual 'revenue' is generally considered not to be acceptable.

How about using Alternative Performance Measures to communicate on the impact of COVID-19?

IFRS, FER

Alternative Performance Measures (APMs) are financial measures which are not defined or specified in the applicable financial reporting framework, e.g. adjusted EBIT. They are used to illustrate to investors and other readers which profit would have been reached without certain impacts. The use of APMs for listed entities is regulated by strict rules, including the following:

- APMs need to be based on a clear and comprehensible definition which must be disclosed;
- APMs must have meaningful labels (i.e. not be misleading);
- A reconciliation of APMs to the amounts in the (interim) financial statements must be provided; and
- Consistent application of APMs is required for future periods.

Many companies may currently think about adjusting performance measures for COVID-19-related impacts. However, such adjustments may be problematic. COVID-19-related impacts can have a pervasive effect on the financial performance, position, and/or cash flows of a company and/or can be difficult to measure. If this is the case, it is not possible to have a general adjustment for COVID-19. Instead, only clearly defined and objectively identifiable impacts (such as impairments) should be taken into consideration. In addition, APMs need to be used consistently. Therefore, any adjustments to APMs should be considered carefully.

Instead of using APMs, the European Securities and Markets Authority (ESMA) encourages companies to provide transparent and quantitative note disclosures (see section on notes below).

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