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COVID-19: REFLECTING THE IMPACT OF COVID-19 ON FINANCIAL RESULTS

The covid-19 pandemic has created significant challenges to the business activities of issuers. The JSE wishes to remind issuers of its letter of 25 April 2020 which focused on various accounting and auditing related matters. It is of paramount importance to ensure that there is transparency in financial reporting for the benefits of investors, shareholders and the financial market as a whole. Given the uncertainties created by covid-19 in the economic and financial systems there needs to be full and detailed disclosure of:

- the estimates and judgements made in applying IFRS; and
- the risk disclosures discussed under IFRS 7.

The impact of covid-19 is likely to be pervasive on upcoming results announcements and therefore warrants careful and considered quantitative explanations.

Application of IFRS

IFRS places various obligations and constraints on issuers in terms of their reporting obligations of the impact of covid-19.

Pursuant to paragraph 8.57 of the JSE Listings Requirements (“**the Requirements**”), issuers must apply the presentation requirements of IAS 34 when publishing their interims, preliminary, provisional and abridged results. IAS 34 includes the following that should be considered in light of covid-19:

- An entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period (IAS 34.15 and 15C);
- IAS 34.15B includes a (non-exhaustive) list of events and transactions for which disclosures would be required including: write-down of inventories (15B(a)); changes in the business or economic circumstances that affect the fair value of the entities’ financial assets/ liabilities (15B(h)); and any loan default (15B(i));
- IAS 34.16A requires the following other disclosures: the nature and amount of items that are unusual because of their nature, size or incident (16A(c)); details of changes in estimates reported in prior

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periods (16A(d)); and events after the interim period that have not been reflected in the financial statements for the interim period (16A(h)); and

- IAS 34.26 states that if an amount reported in an interim period changes significantly during the second six months of a year (this would be for example from the pre COVID-19 interims) the nature and amount of the change in the estimate must be disclosed in the AFS.

IAS 1 also includes the following of relevance:

- An entity must provide additional disclosures when compliance with the specific IFRS is insufficient to enable a full understanding of the impact on an event (paragraphs 17 and 31). This may require, inter alia, disclosures normally only included in the full AFS now being presented with the IAS 34 format of the results;
- An entity shall present additional line items, headings and subtotals when such presentation is relevant to an understanding of the entity's financial position/ performance (paragraphs 55 and 85);
- When items of income or expense are material, an entity shall disclose their nature and amount separately (paragraph 97);
- The constraint is that items of income or expense cannot be presented as extraordinary (paragraph 87); and
- An entity shall present information that is not presented elsewhere in the financial statements but is relevant to an understanding (paragraph 112 (c)).

Applying the above (together with other relevant paragraphs of IFRS) should result in issuers providing investors with a comprehensive view of the impact of covid-19 within their IFRS financial results. Considering the application of IFRS 8 and the disaggregation requirements of IFRS 15 will also be helpful for investors to understand the potential future impact of covid-19.

The JSE recognises that issuers may still be considering providing further analysis of the impact of covid-19 when communicating their interim, preliminary/provisional, abridged results and annual financial statements ("**covid-19 financial analysis**"). When presenting non-IFRS information paragraph 49 of IAS 1 states that:

- "An entity shall clearly identify the financial statements and distinguish them from other information published in the same published document".

Covid-19 Financial Analysis

The following General Principle of the Requirements are relevant when presenting information outside of the financial statements:

- (ii) shareholders must be given full information; and
- (vii) the continuing obligations of issuers under the Requirements must promote investor confidence in standards of disclosure and corporate governance in the conduct of issuers affairs.

To achieve these objectives all covid-19 financial analysis must be presented in a manner that:

- (a) is transparent;
- (b) is not misleading;
- (c) is understandable;
- (d) is reliable;
- (e) is consistently presented between reporting periods; and
- (f) don't obfuscate or detract from the financial information required in terms of Section 8 of the Requirements.

To assist in achieving the above the following should be considered:

1. Labels

- (a) labels/ abbreviations should be meaningful and not misleading;
- (b) should be accompanied by a definition which clearly explains the basis of the calculation, distinguishing between information that is factual and/or based on assumptions and/or hypothetical information; and
- (c) labels must not be in conflict with the definition.

2. Detailed calculations

- (a) should be presented to demonstrate how the definition referred to in (1) above was applied to the specific period; and
- (b) should either take the form of a reconciliation to the most directly comparable line item (or subtotal or total) presented in the IFRS financial statements where possible or provide an explanation if it is not possible to reconcile to an IFRS equivalent.

3. Consistency

- (a) an explanation should be provided if an issuer decides in a subsequent period to no longer provide a specific covid-19 financial analysis that was previously provided; and
- (b) the definitions referred to in (1) above should be applied consistently from one period to the next or if there is a change (in either application or the definition itself) an explanation of the nature and reasons for that change should be provided.

Conclusion

Issuers are reminded that guidance letter FM-6 of 4 March 2010 is also applicable. Depending on the nature of the covid-19 financial analysis, they may also have to apply the pro forma rules of paragraph 8.15 to 8.34 of the Requirements.

Should you have any queries with regards to the content of this letter please contact Tania Wimberley.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A F Visser', written over a large, light-colored circular scribble.

A F VISSER: DIRECTOR
ISSUER REGULATION

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