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Staff Accounting Bulletin

The authority's staff position brought hereunder, are professional positions which reflect the decisions and the positions of the staff in issues concerning the implementation of securities' laws. The content of the published positions guides the authority and the staff in carrying out their powers, and the public can use them and apply them in similar circumstances.

May 11, 2020/17 Iyar. 5780

SAB 99-7: Effects of the Corona Virus on Financial Disclosures and Reporting in Financial Statements for Q1/2020 and Subsequent Periodic[1] Reports

The world has recently experienced a global event with significant macroeconomic implications, originating in the spread of the coronavirus ("COVID-19" or "the Coronavirus") in many countries worldwide, including Israel ("the Corona Crisis"). This crisis and the travel restrictions imposed in Israel and other countries in an effort to prevent the spread of the Coronavirus pose multiple challenges for the economy, reflected in an unprecedented abrupt and intense decline in business activity. To address the economic implications of the Corona Crisis, Israel and other countries have recently introduced various measures, including interest rate cuts, mass government-bond-buying programs, grants, subsidized loans, and tax relief.

[1] Including both quarterly and annually reports.

The effects of the Coronavirus and the actions to prevent its spread pose significant challenges for the broad segment of reporting entities in the capital market, operating in diverse sectors. This group includes reporting entities in sectors that are directly exposed to these risks as a function of their lines of business, as well as reporting entities that are indirectly exposed to the crisis through its macroeconomic effects, including its impact on reporting entities' risk levels and ability to source credit and capital. Consequently, today's situation is characterized by rapidly changing conditions, a high degree of uncertainty surrounding the continued spread of the Coronavirus and its intensity, and uncertainty concerning the nature and duration of the country's exit from the crisis.

The principle of due disclosure is a foundation stone of securities law. Trading in securities of reporting entities is based, first and foremost, on the information reporting entities provide, which is used by investors to make informed investment decisions. Reporting entities' immediate and periodic reports are designed to enable investors to assess an entity's condition and the potential value of investments in it; This is the case in ordinary times, <u>and applies even more strongly in situations such as the current crisis, which is characterized by significant uncertainty</u>. In this period, the availability of qualitative and quantitative information on the crisis's effects on reporting entities is essential for maintaining the efficient operations of the capital market. Reporting entities' financial statements constitute a major component of the financial reporting process and a major instrument through which due disclosure is performed and through which financial information about reporting entities' businesses is made available to the investors. This information is essential for assessing an entity's performance and making informed decisions on investing in the entity's securities.

Since the outbreak of the Corona Crisis, ISA Staff has published notices, staff positions, and announcements of various relief measures related to reporting entities' reports and activities in this period. In March, ISA Staff published a notice on the required disclosures concerning the effects of the spread of the Coronavirus on reporting entities' business operations ("the Staff Notice").[2] In this Notice, ISA Staff emphasized the importance of providing detailed, accurate, and real time information to the investors in reporting entities' immediate and periodic reports on the material and potentially material effects of the Corona Crisis on their business operations.

For example, according to the Staff Notice, reporting entities should continuously apprise the investors of material developments related to these effects in immediate reports, pursuant to Regulation 36 of the Securities Regulations (Periodic and Immediate Reports) 5730-1970 ("Reporting Regulations"). Reporting entities are further required to include a qualitative and qualitative disclosure of the effects of the crisis in their periodic reports, including the Report of the Board of Directors ("Director's Report"), in a clear,

[2] For the ISA Staff notice dated March 8, 2020 on the effects of the Coronavirus on reporting entities on the ISA website, click here

detailed, comprehensive manner that allows investors to best assess the impact on reporting entities and their plans to address these effects.

The aim of this Staff Position is to emphasized aspects of the disclosure required in the periodic report for the first quarter of 2020 and the consecutive quarterly reports, with respect to the effects of the Corona Crisis. The following highlights outline the disclosures required in the Director's Report according to the Reporting Regulations, the disclosures required in the **financial statements** according to IFRS, and **several additional issues**.

ISA Staff wish to emphasize at the outset of this SAB that it is not possible to define a single disclosure model for assessing the effects of the crisis on all reporting entities. Reporting entities should include disclosures and implement accounting policies in their reports according to their specific circumstances within the current economic environment. The ISA Staff also stress that although quarterly reports typically include concise information, in view of the unusual circumstances and material developments in the economic business environment in the first quarter and thereafter, reporting entities should carefully provide a detailed disclosure that allows investors to assess the effects of the Corona Crisis on reporting entities' operations as best possible.

ISA Staff acknowledges that in the current period of uncertainty and frequent, rapid changes in the economy and in various markets, it is challenging to produce assessments and estimates of the effects of the Coronavirus, specifically on reporting entities' operations, and more generally on the global and local economy, and to develop plans to address these effects in general. Nonetheless, these explanations are extremely important for investors and their ability to understand the strengths and resilience of reporting entities' business operations in the current circumstances. **Therefore, reporting entities should perform these assessments and accordingly include an appropriate disclosure, and should apply accounting policies according to IFRS based on their best understanding and evaluations, and based on existing information. Reporting entities should also include information on the key assumptions and material judgments that underlie their disclosures and accounting policy, including its application to multiple various scenarios, and include the appropriate sensitivity analyses where relevant and necessary.**

ISA Staff wishes to stress that, in certain cases, reporting entities may use the defenses defined in this matter in Section 32A of the Securities Law 5728-1968 ("the Securities Law") concerning forward-looking information, according to the conditions defined therein.

The investors should obviously take into account that some of the information in these reports was reported under circumstances of extraordinary uncertainty and is based on various assumptions and assessments. This applies not only to forward-looking information, but also to the extensive information contained in the reports that is the result of estimates and judgments, such as valuations and assessments of

reporting entities' financing abilities. Although many assumptions and assessments may not materialize, presenting this information is very important as it reflects reporting entities' own view of the current events. The ISA Staff will also take into consideration the unique nature of the Q1/2020 reports and the economic circumstances in the market.

Needless to say, the aim of the highlights discussed in detail in this Position is to emphasize the disclosure that is already required by law and IFRS rules, and to illustrate what is expected of reporting entities as they implement the disclosure requirements. Therefore, this is not an exhausted list of points related to the disclosure required by law and IFRS rules, but rather a series of illustrative examples. Reporting entities should use their judgment and include all the relevant disclosures that will enable the investing public to analyze the implications of the crisis on their business operations.

Key points to note in the Directors' Report concerning the effects of the Corona Crisis

Following ISA Staff Position dated March 2020 on the required disclosure in the directors' report concerning the material effects of the Coronavirus on reporting entities, ISA Staff wishes to stress that the directors' explanations should provide clear and detailed information and should pertain to the entity's specific circumstances (that is, a "tailor-made" rather than generic disclosure) and its sector, in order to allow investors to best assess the anticipated effects of the crisis on the entity's business, as evaluated by the board of directors, and its plans for addressing these effects. To this end, reporting entities should provide a qualitative and quantitative disclosure that makes it possible to understand the data.

ISA Staff wishes to stress that in light of the continued spread of the Coronavirus and the deepening of the Crisis in the period between the reporting date for the first quarter and the issue date of these reports, a disclosure should also include the following information on the material effects and developments between the reporting date and the report issue date, according to Regulations 10(B)(2) and 10(B)(5) of the Reporting Regulations.

A. Disclosure of the effects of the Crisis on the results of operations in and after the reporting period, including risks and exposures

The directors' explanations of the changes in reporting entities' financial position, the results of its operations, and its cash flows should include a disclosure of the effects of the Corona Crisis, including effects reflected in the financial information according to the financial statements for the reporting period and effects that are not yet reflected in these statements, and a quantitative estimate of these effects, to allow investors to analyze the extent to which an entity's past period performance may be used to assess its future performance. Furthermore, the disclosure should also address the material effects and developments that occurred in the period prior to the issue date of the report. The disclosure should include at least the following:

1) A description and analysis of the important trends and material risks and exposures to which the entity is subject as a result of the effects of the Corona Crisis, and how the corporation is addressing them, including effects on ordinary business operations and the risks that affect the entity as a function of its sector, the geographic location of its operations, and its circumstances.
2) A disclosure of the specific effects of the crisis on the results of the entity's operations, including revenues, variable costs, fixed costs, profitability, and the actions taken to address these effects. The effects should be quantified as far as possible, and reporting entities should consider including sensitivity analyses of the key factors that influence these effects.
3) An analysis of the KPIs used by management to assess the effects of the Crisis on the entity's performance and operating targets, and on each business segment materially affected by the Crisis. In addition, an analysis of the effects of the Crisis on non-GAAP measures that were included in the entity's reports in the past. On this point, see Staff Decision 99-6 on the use of non-GAAP financial measures.[3]
4) Due to the travel restrictions imposed in Israel and other countries in and after the first quarter, which led to a reduction in labor and business operations, the first quarter includes a period in which business operations proceeded normally as well as a period in which business operations were affected by the restrictions. Therefore, reporting entities' disclosure should distinguish between the business results in these two sub-periods, in a manner that makes it possible to understand and analyze the effects of the restrictions on the corporation's business activity based on its results in these periods, and a disclosure of the effects on relevant operating measures.

The following are examples of key questions to consider when developing the disclosure to be included in the directors' explanations of the effects of the crisis on the results of reporting entities' operations:[4]

- How was the demand for the products or services sold by the entity affected?
- How were the entity's costs (raw materials, new costs, operating costs) affected? Analyze fixed vs. variable costs and the long-term effects of any reduction in costs on the corporation's operations.
- What is the entity's strategy and the steps taken to economize on costs, organizational changes, operating and/or financial assessments, etc.?
- Labor – What is the effect of the health guidelines on the entity's functioning, including the percentage of its labor employed in this period, and the effects of a reduced labor force on its business operations?

[3] For Decision 99-6 published on the ISA website (Hebrew), click here

[4] To clarify, the list of questions is provided only to illustrate the considerations that may be made when developing the disclosure. This is not an exhaustive list of considerations.

- How does the crisis affect the entity’s material customers and the revenues that they generate?
- How does the crisis affect the entity’s supply chain and distribution channels?
- How were the status, completion dates, and budgets of material projects affected?
- What is the effect of potential governmental support and/or refunds from insurance companies?
- Is there any breach or potential breach of a material contract by the entity or by a counterparty to these contracts? Is there any dispute with any party on whether the Coronavirus is deemed a force majeure?

B. Disclosure of the effects of the crisis on liquidity, financial position, and sources of financing

The directors’ explanations of the assessments of the effects of the crisis on the entity’s financial position, liquidity, financial strength, available financing sources, and its ability to meet its liabilities, should also include a quantitative and qualitative disclosure that supports a comprehensive analysis of these effects, and the entity’s assessments of them. **This disclosure should include the key assumptions, judgments, and various scenarios taken into consideration on which the corporation’s assessments are based.** If the entity’s assessment of its ability to meet its liabilities is more sensitive to certain assumptions (such as assumptions related to the prolongation of the Crisis and the duration of the recovery and exit period), the disclosure should be extended to include sensitivity analyses and multiple scenarios, to allow investors to gain a comprehensive understanding of the effects of the Crisis on the corporation’s financial position. The disclosure should, for example, address the following issues:

1) The financing sources available to the entity and its flexibility in obtaining additional financing as required to meet its liabilities, and finance its business activities and growth. Address unencumbered assets and unused credit facilities.
2) If the entity uses cash sources of other companies in the group, address any restrictions on such cash transfers.
3) Disclosure of breaches of financial covenants and their repercussions, or the risk of such breaches and the entity’s plans for resolving such breaches or potential breaches.
4) Disclosure of payments in arrears (such as lease payments, rental payments, interest payments) and their implications, and the entity’s plans for managing these risks.
5) The entity’s burn rate (especially when there is a significant decline in business activity).

The following are examples of key questions to consider when developing the disclosure to be included in the director's explanations on the effects of the Crisis on the entity's liquidity and financing:[5]

- How has the Crisis affected the entity's short-term and long-term liquidity?
- What is the effect on the entity's financing agreements and is the entity taking any steps to modify their terms?
- Is the entity eligible for any government assistance?
- What is the balance of the entity's unencumbered assets?
- What is the effect on the costs of raising capital and financing and on the financial sources available to the entity?
- Can the entity meet its liability according to its financing agreements?
- What is the effect on the costs required to maintain production capacity in order to meet the entity's business plan and/or its development activities?
- Does the change in liquidity affect the entity's dividend policy?
- Does the entity expect to be in compliance of the financial covenants to which it is committed under its financing agreements?
- What steps does the entity intend to take in order to manage liquidity stress and reduce uncertainty related to liquidity?

C. Disclosure of the corporation's forward-looking plans

In addition to a description of the effects of the Corona Crisis on the entity's current operations up to the issue date of the report, it is important for investors to understand the potential future effects of the Crisis, under varying scenarios, and the entity's plans for addressing these effects under those scenarios. **ISA Staff acknowledges that the inclusion of such information, which is based on various assumptions and assessments concerning matters that are not in the entity's control, is challenging for reporting entities in this period of uncertainty, and is obviously a matter of judgment. Nonetheless, this forward-looking information is extremely important from the investors' perspective at this time, to assist them in understanding the effects of the Crisis, the risks facing the corporation, and the corporation's plans, from the perspective of management and the board of directors.**

The disclosure should use the conditions defined in Section 32A of the Securities Law regarding defenses with respect to forward-looking information.

Therefore, ISA Staff believes that providing prospective information may help investors better understand the expected effects of the Crisis on the entity and its main plans to address the resulting effects and manage the risks and exposures, under the main scenarios examined by the corporation. Presentation of this information should include the underlying assumptions, the sources available to the entity to execute its plans, and sensitivity analyses of

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[5] To clarify, the list of questions is provided only to illustrate the considerations that may be made when developing the disclosure. This is not an exhaustive list of considerations.

the main parameters, which may or may not be in the entity's control, such as the duration of the crisis, the prolongation of the restrictions imposed by Israel and other countries, and assumptions regarding an exit from the crisis.

Adjustment to the specific circumstances and features of the sector

As noted above, the disclosure should include a disclosure of the quantitative effects of the crisis, and the evolving and expected trends, in the entity's opinion, with attention to the specific circumstances of the entity and its sector, for the reporting period and the subsequent period up to the report issue date.

For the sake of illustration only:

Reporting entities operating in the **rental property sector** should consider a disclosure of the ratio of closed retail/office areas to total areas, the duration of the closure, and assessments regarding the duration of the closure and its effect on the results of its operations; rent collection rate and analysis of conventional metrics; rent concessions to tenants, and; analysis of variable costs and fixed costs, including an analysis of the corporation's fixed costs in respect of properties in which business operations were suspended.

Reporting entities operating in the **real estate development sector** should consider a disclosure of the effects of the Crisis on apartment sales prices, rate of sales on the reporting date and the report issue date, and progress in project execution, and updated completion dates for material projects according to the corporation's assessment.

Reporting entities in the **retail and fashion sectors** should consider a disclosure of the entity's sources of revenue (for example, an analysis of online vs. other revenues in the reporting period, an analysis of trends and assessments of the effects of the Crisis); the effect of store closures on its business operations; the entity's compliance with rental payments according to its leases, and if the entity has not made its rent payments, a description of the exposures such non-compliance entails, and; an analysis of its fixed vs. variable costs.

Reporting entities in the **leasing and tourism sectors** should consider a disclosure of the effects of the Crisis on their business operations, the entity's assessment of additional future effects (such as reservations compared to reservations in the corresponding period in the previous year); new agreements and cancellation of reservations. Reporting entities with a typically high leverage rate and reliance on financing sources and capital raising for refinancing should consider including an analysis of the effects of the Crisis on its debt refinancing ability.

Investment houses should consider an updated disclosure, for example, on the composition of movements in their management assets.

Disclosure in the directors' report on projected cash flows

Regulations 10(B)(14) and 48(C)(13) of the Reporting Regulations define a requirement to attach to periodic reports a disclosure of projected cash flows if warning signs (defined in the Regulations) exist. ISA Staff wishes to stress that the Reporting Regulations impose a requirement on reporting entities to provide details of and support for the underlying assumptions of the attached projected cash flows. To this end, reporting entities should follow the points highlighted in this Position on disclosures regarding their assumptions, assessments, and plans related to the effects of the Crisis described above, to the projected cash flows.

Furthermore, according to Regulation 10(B)(14)(a)(4) of the Reporting Regulations, where an entity determines that a working capital deficit or a deficit in the working capital for the 12-month period or a persistent negative cash flow from ordinary operations do not constitute indications of liquidity stress, the entity should provide details of the tests conducted by the board of directors, the reasoning for its decision, and details of the qualitative and quantitative parameters used to make its decision, as stressed by ISA Staff in Q&A 105.7.[6] ISA Staff stresses that in the current period, the board of directors' reasoning for this determination should also address the effects of the Crisis on the entity's business operations, as emphasized in this Position Paper.

Furthermore, ISA Staff direct reporting entities' attention to the Q&A on the option of including, in the projected cash flow, sensitivity analyses on variables that are not market dependent in the Coronavirus crisis period. See ISA Staff publication dated May 7, 2020.[7]

Disclosure of material and very material valuations according to the Reporting Regulations

Regulation 8B of the Reporting Regulations imposes on reporting entities a requirement to disclose material valuations, and to disclose and attach very material valuations. Staff Position 105-23: Parameters to Test Materiality of Valuations, and the clarification to this Staff Position discuss the parameters that should be used to determine the materiality of valuations, and includes additional clarifications.[8,9]

According to Regulation 8B(I) of the Reporting Regulations, if a material or very material valuation was used to determine the values of items in the periodic report, or used to determine that no revision should be made to the value of said items, the entity should present a disclosure of the parameters listed in this Regulation, including the object of the valuation, the date of the valuation, the valuation, the appraiser and main attributes, the valuation model, and details of the assumptions used by the appraiser in the valuation.

As noted in the background to this Staff Position, in the current period of uncertainty and frequent, rapid changes in the economy and the various

[6] For Q&A 105.7 published on the ISA website (Hebrew), click here

[7] For Q&A regarding the Corona Crisis period published on the ISA website (Hebrew) ,click here.

[8] For ISA Staff Legal Position 105-23 - Parameters to Test Materiality of Valuations (Hebrew) ,click here. For the clarification to this Staff Position (Q&A) published on the ISA website, click here.

[9] For Q&A regarding the Corona Crisis period published on the ISA website, which includes Q&A on attaching valuations to assess impairment of operations in this period (Hebrew) ,click here.

markets, it becomes all the more important to understand an entity's assessments of the effects of the Crisis on its business operations, and the assumptions, estimates, and judgments underlying these assessments. **Similarly, the results of valuations in the current period entail significant measurement risks, and therefore it is extremely important to disclose the model, the assumptions, and the assessments that underlie valuations and how they are supported. Therefore, ISA Staff wishes to stress the importance of providing the disclosure required by Regulation 8B(I) in a complete, clear, and detailed manner, and including the information described below**.

Needless to say, the topics listed emphasize the disclosures that are in any case required by the Regulation, and do not constitute an exhaustive list. ISA Staff nonetheless found it warranted to stress specific issues in order to clarify its expectations on how these disclosure requirements should be implemented in general, and specifically in the current period.

- **Valuation model** – When extensive uncertainty exists with respect to a specific parameter, such as the time until the pandemic is under control or the probability of its recurrence, a valuation may be performed using multiple scenarios. Each scenario in the valuation is assessed according to assumptions and assessments that control for the uncertain parameter. If the valuation uses a scenario-based model, the disclosure should include details of the scenarios, the weight given to each scenario, the reasons for the selection of these scenarios and weights, the discount rate used to calculate the cash flows of each scenario including its components (such as leverage, and cost of internal and external sources of capital), and how these rates were determined.
- **The key assumptions underlying the valuations and sensitivity analyses** – The disclosure should include these assumptions, as required by Regulation 8B(I), and details of the key parameters that affect these assumptions, and sensitivity of the valuation to changes in these parameters. If different assumptions were used for different sectors, details should be provided for each sector separately, although differences between sectors may be addressed qualitatively, provided that such information is sufficient to provide due disclosure to investors.
- If the valuation accounts for uncertainty otherwise (for example, by attributing a premium to the discount rate), the entity should disclose the size of the premium and how the appraiser established the premium.
- The current crisis and the uncertainty of the future may also affect of future cash flows. Therefore, reporting entities should provide an appropriate disclosure of the assumptions underlying its projected cash flows and the support for these assumptions. The disclosure should be meaningful. For example, a valuation may have assumed that the entity's revenues will be adversely affected by the pandemic, but that the costs of labor and raw materials will decline, leading to an impairment in cash flows that is smaller than the impairment to revenues. In this case, the disclosure should also

address this information in a manner that gives investors the material details of the assumptions underlying the valuation and how they were supported.

Furthermore, ISA Staff direct reporting entities' attention to the Q&A on attaching valuations for examining impairment of cash-generating units in the Coronavirus period. See ISA Staff publication dated May 7, 2020.[10]

Key points to note in the financial statements concerning the effects of the Corona Crisis

According to IFRS, financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, , financial performance, and cash flows, which is useful to a wide range of users in economic decision making, and to present the results of the management of the entity's resources by its management. To achieve this goal, the financial statements present information on the entity's assets, liabilities, equity, revenues and expenses, profit and loss, investments by and distributions to owners, and cash flows. This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and specifically their timing and degree of certainty.[11]

International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") determines that an entity should include in its interim financial statements an explanation of the events and transactions that are material for understanding the changes in its financial position and performance since the last annual reporting date.

As described in the background to this Position, the spread of the Corona crisis intensified in Israel and other countries during and after the first quarter. The circumstances of reporting entities have changed significantly compared to the circumstances that existed at the last annual reporting date, and therefore, according to IFRS, **the financial statements for the first quarter and for subsequent quarters, where relevant according to developments, should include more extensive disclosures than those ordinarily included in the quarterly statements in ordinary times regarding any significant changes in the entity's financial position and performance due to the effects of the Coronavirus, the assumptions underlying the accounting policies applied to these matters, and the significant estimates and judgments made, as described in detail below. In this period of uncertainty, reporting entities should carefully provide full disclosure to ensure that the financial statements are useful for decision making by their users.**

As noted in the background to this Position, **ISA Staff acknowledges that the financial statements for the first quarter of 2020 are being prepared in a time of significant uncertainty and changing economic environment. ISA**

[10] For Q&A regarding the Corona Crisis period published on the ISA website (Hebrew) ,click here.
[11] IAS 1.9.

Staff expects reporting entities to use the best information available to them and their best judgment when implementing IFRS rules and developing the best estimates possible based on this information.

ISA Staff further notes that in the current period, different reporting entities may use different judgments and develop and use different assumptions in similar circumstances. **Therefore, it is extremely important to carefully provide a complete disclosure that is tailored to the specific circumstances of each reporting entity, and which includes estimates, assumptions, and judgments, as described below**. Clearly, reporting entities should continuously examine whether new information justifies an update to the assumptions and judgments used in its financial statements.

As noted above, the Crisis may have multiple and significant effects on the financial information in the financial statements for the first quarter. Following are several issues that may be materially affected:

- The entity's assessment of its ability to continue its operations as a going concern; the entity's financial position and its ability to discharge its liabilities;
- Disclosures of significant estimates and judgments implemented in the financial statements;
- Identification of adjusting and non-adjusting events that occurred after the reporting date;
- Measurement of financial and non-financial assets and liabilities in the financial statements, such as fair value measurement of non-tradable assets, impairment of tangible assets (PP&E, inventory, etc.), and intangible assets (goodwill, other intangible assets), impairment of investments in associated companies, impairment of financial assets, and recognition of credit losses;
- Existence of the conditions for recognition of income and implementation of the rules on income recognition;
- Changes in lease agreements;
- Recognition of liabilities and provisions;
- Government grants;
- Employee payments and benefits;
- Measurement of deferred taxes, and other effects.

It should be stressed that these are illustrative examples only, and reporting entities are required to examine the effects of the Crisis on the measurement and recognition of all the items in the financial statements according to IFRS standards, and to include appropriate disclosures from the entity's subjective perspective, based on its specific circumstances, rather than generic disclosures.

ISA Staff wishes to stress several points concerning the following items that may be materially affected by the Corona Crisis.

A. Assessments of going concern and disclosures on material uncertainty concerning the financial position

When assessing the going concern assumption and the entity's financial position according to IFRS, the entity should assess the effects of the Corona Crisis on the state of its business and its financial position, its ability to continue as a going concern, and its ability to meet is liabilities, and should include **a detailed disclosure in the notes to the financial statements (generally in Note 1) of the assumptions and assessments used to make going concern assessments**, to the extent that the Corona Crisis has or may have a material effect on the entity. For example, if the entity believes that its ability to discharge its liabilities is uncertain, yet these assessments do not cast significant doubt on the corporation's ability to continue as a going concern, the corporation should, according to IFRS, include a detailed disclosure of the assumptions underlying these assessments, including the management's plans and the probability of their realization, where relevant. Reporting entities should bear in mind that this assessment should also take into account events that occurred up to the issue date of the financial statements.[12]

In the description of the effects of the Crisis on the entity's state of business and financial position, where such effects are or may be material, the entity should include qualitative and quantitative information that allows users to understand these effects, such as information on effects on the entity's ability to comply with its financial covenants,[13] including the risk of non-compliance with financial covenants, the financing sources available to the entity and its ability to obtain additional financing if necessary, the results of its business operations (effects on revenues, costs), and its burn rate (especially in the event of a significant decline in business operations).

ISA Staff wishes to stress that if the entity's assessment of its ability to discharge its liabilities is sensitive to varying assumptions (such as assumptions concerning the duration of the Crisis, the duration of the recovery and exit period), the disclosure should be extended to include sensitivity analyses where necessary, in order to allow investors to understand the effects of the Crisis on the entity's financial position.

On this point, ISA Staff wishes to direct reporting entities' attention that, according to Regulation 10(B)(14) of the Reporting Regulations, one of the warning signs that requires reporting entities[14] to include a projected cash flow statement in the directors' report is an opinion or a review report by the auditor that draws attention to the entity's financial position. **ISA Staff stress that reporting entities are, on the one hand, required to include a disclosure that allows users to understand the entity's assessments of the effects of**

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[12] IAS 10.14-16.

[13] For example, if the company is required to meet a specific NOI to net financial debt ratio, and the company is materially affected by the Crisis, the company is required to clarify its current monthly NOI in a manner that allows investors to assess the company's ability to meet its financial covenant of the continuation of the Crisis.

[14] This sub-regulation applies to reporting entities that have outstanding bonds.

the Crisis on its financial position and that clearly states whether the disclosure refers to uncertainty related to the financial position or to effects on its business that do not affect the corporation's ability to discharge its liabilities (for example, material effects of the Crisis on the entity's business such as a significant decline in business operations, which do not affect its ability to meet its liabilities); while on the other hand, an auditor who includes in their opinion or review report, as the case may be, an emphasis of matter paragraph, should draft the paragraph in a clear manner that clarifies whether attention is being drawn to uncertainty in the financial position or to the note on the effects of the Coronavirus that do not affect the entity's ability to discharge its liabilities.

This applies in ordinary times in general, and specifically in the current period.

B. Key judgments and significant estimates in the financial statements

International Accounting Standard 1 "Presentation of Financial Statements" ("IAS 1") requires a disclosure of the judgments made by management in the process of applying the entity's accounting policies, and that have the most significant effect on the amounts recognized in the financial statements.[15] IAS 1 also requires a disclosure of information about the entity's assumptions about the future, and other major sources of the uncertainty in the estimates included in the financial statements.[16]

In ordinary times, when measuring estimates in the financial statements, reporting entities are compelled to make complex subjective decisions. These decisions become increasingly subjective and complex as the number of variables and estimates that affect potential future results increases.[17] This is all the more the case in the current crisis period, in view of the uncertainty surrounding the developments of the Corona Crisis, its effects, and recovery.

Therefore, ISA Staff stresses that reporting entities should take special care to include the full disclosure required by IAS 1 of the key judgments applied by the entity in preparing its financial statements and of the significant estimates included therein, including details of the key assumptions made in developing these judgments and estimates (including assumptions regarding the duration of the Crisis); the financial statement items' sensitivity to assumptions, methods, and estimates on which their calculations were based; the results of calculations in different scenarios; an explanation of the changes made to the assumptions related to these items that were determined in the last annual financial statement; and any additional disclosure that will allow users to understand what the entity assumed in making these estimates.[18]

[15] IAS 1.122.
[16] IAS 1.125.
[17] IAS 1.127.
[18] IAS 1.129-133.

The disclosure should be specifically tailored to the entity's circumstances and not a generic disclosure.

C. Effects on events after the reporting period

The Corona Crisis spread and intensified in Israel and in other countries in the first quarter of 2020, and after the reporting date. International Accounting Standard 10 "Events After the Reporting Period" ("IAS 10") defines the required accounting treatment and disclosures regarding events that occurred after this period, and distinguishes between adjusting and non-adjusting events.

ISA Staff stresses that reporting entities should examine the events that occurred after the reporting date according to their specific circumstances, and should apply their judgment to determine whether the events are adjusting events or non-adjusting events. When applying such judgment, reporting entities should examine whether the events shed light on events that occurred before the reporting date, or on conditions that arose after the reporting date. If this judgment has a significant effect on the values presented in the financial statements, it should be explained and the entity's reasons for its decision should be disclosed. It should be stressed that although there may be many events that are related to the Corona Crisis in different ways, the determination that an event is adjusting or non-adjustment may differ: Each event should be examined separately, according to the specific circumstances of each entity.

If the corporation determines that an event is a non-adjusting event, the entity should include a disclosure according to IAS 10 on the nature of the event and an estimate of its financial impact, if such an estimate is practical. However, even if the entity believes that it is not practical to include a measure of the event's financial impact, ISA Staff encourages reporting entities to include such estimates, as this is preferable to including no estimate at all.

D. Fair Value Measurement (FVM) and Impairment of Assets

As described above, according to IAS 34, reporting entities should include a disclosure of the significant events that are significant to an understanding of the entity's financial statement and its performance since the last annual reporting period, such as impairment of inventory to net realizable value; recognition of impairment loss to financial assets, PP&E, intangible assets, lease-based assets, etc.; changes in business or economic conditions that adversely affect the fair value of financial assets and liabilities (whether these are recognized at fair value or discounted value); changes in the fair value of other assets, as described in the standard, and as relevant.[19]

[19] Note that the list of events contained in IAS 34 is not exhaustive and reporting entities are therefore required to extend the disclosure to include any significant change that occurred compared to the last annual report.

Despite the uncertainty that characterizes the current period, reporting entities should measure their assets and liabilities according to the requirements of IFRS and include a disclosure in the appropriate cases.

ISA Staff stresses that in the necessary cases, reporting entities should include a full disclosure of their estimates concerning significant changes, according to IAS 34, in the fair value of assets and liabilities and impairments recognized according to the relevant standards. Reporting entities should carefully provide a disclosure that allows users to understand management's assumptions and judgments, as described in Section B above, and according to the requirements listed in the relevant standards (IAS 2, IAS 36, IFRS 7, IFRS 9, IFRS 13, and others).

ISA Staff further wishes to stress the following:

- Needless to say, in measuring fair value and impairments, the entity may avail itself of the assistance of an external appraiser, but is not required to do so. Reporting entities should bear in mind that Regulation 8B of the Reporting Regulations on disclosure and attachment of material and very material valuations also applies to valuations performed by the entities independently.
- According to International Accounting Standard 36 "Impairment of Assets" ("IAS 36"), reporting entities should examine the impairment of an asset if an indication of impairment listed in the standard exists.[20] **Reporting entities should apply their judgment in examining whether indications of impairment exist according to the standard**. For example, reporting entities should examine whether the changes that occurred in the business and economic environment in this period have an adverse impact on the entity, whether the carrying amount of the net assets of the entity is more than its market capitalization, whether indications exist of a decline in the asset's value on the market, and was an asset's economic performance worse than its projected performance,[21] and should include a disclosure of these judgments and their supporting evidence.
- It should be stressed that **when examining the existence of an indication of impairment**, it is the position of ISA Staff, and according to IAS 36, that the effects of a negative indication cannot be offset by the effects of a positive indication. On this issue see Accounting Enforcement Decision 14-2 on offsetting of positive and negative indications when examining the need to assess an asset's impairment.[22]
- **Reliance on a valuation report by an appraiser that contains a reservation** — Valuations that constitute a basis for measuring values in the financial statements should include the disclosure required by Regulation 8B of the Reporting Regulations, and specifically a detailed disclosure of the effects of the Corona Crisis on the valuation, its underlying

[20] According to IAS 36, assessment of goodwill and intangible assets with indefinite useful lives is conducted annually, and where indications of impairment exist.

[21]At minimum, the indications of impairment listed in IAS 36.12 should be assessed.

[22] For the enforcement decision published on the IAS website (Hebrew) ,click here.

assumptions, the valuation model, and other information (also see the points highlighted in Part A of this Staff Position on the disclosure of material and very material valuations pursuant to the Reporting Regulations). **Needless to say, a valuation that includes a reservation by the appraiser concerning the value determined in the report (such as a statement that the appraiser is unable to estimate the effects of the Crisis on the value of the asset due to the existing uncertainty) cannot constitute a basis for fair value measurements used in the entity's financial statements.** Valuations that merely point to increased uncertainty and measurement risks and do not include any statement concerning the inability to rely on the results of the valuation should be assessed on a case-by-case basis, and do not automatically preclude the entity's ability to rely on them.

E. Effects of the Corona Crisis on implementation of IFRS 9 and ECL model

International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9") defines a principle-based framework to be used when a reporting entity uses its judgment to consider whether to recognize expected credit losses in respect of financial assets that are measured at discounted cost or fair value through other comprehensive income, and when assessing forward-looking scenarios. IFRS 9 has a significant impact on entities whose business activity entails credit risks, but not only on those entities. Clearly, reporting entities should also examine the effects of the Crisis on the measurement of financial instruments when considering the recognition and measurement of expected credit losses (ECLs). In March 2020, the IASB published highlights on the implementation of an expected credit loss model during the Corona Crisis.[23]

When implementing IFRS 9, reporting entities should develop various estimates and assessments that may be significantly influenced by the effects of the Corona Crisis. For example, reporting entities should assess whether a change in the terms of a financial instrument is material and whether a significant increase occurred in credit risks, and develop projections of future economic conditions in order to calculate expected credit losses (ECLs). In view of the current uncertainty and economic conditions, these assessments should be made cautiously and be supported by the best information available to the company. Furthermore, when examining an increase in borrowers' credit risks and calculating expected credit losses, reporting entities should also take into account the effects of other governmental bodies' assistance and support measures for borrowers, if any, and long-term economic projections based on the best information available to the entity.

ISA Staff stresses the importance of providing a detailed qualitative and quantitative disclosure of reporting entities' assessments and their underlying assumptions and judgments, including assessments of the issues described

[23] For the IASB publication on this matter, click here.

above, pursuant to IAS 34 and International Financial Reporting Standard 7 “Financial Instruments – Disclosures” (“IFRS 7”), in order to enable users to understand the assumptions, estimates, and judgments that were used when measuring financial instruments, and when assessing ECLs.

The disclosure should include, for example, quantitative and qualitative information on the effects of the Corona Crisis on credit underwriting policies and ECL measurement; updates to the aging report of debts in arrears compared to the annual report and a qualitative analysis of loans in arrears; the disclosure should be updated in the event of a significant change to the distribution of the credit portfolio by exposure per sector, in comparison to the annual report, and; reporting entities should consider extending the disclosure if a specific sector is highly sensitive to the analysis of Corona Crisis effects.[24]

F. Implications of the Corona Crisis on internal control over financial reporting and disclosures

The restrictions imposed on the government’s work and restrictions on access to various sites may create process risks and may impair the quality and effectiveness of reporting entities’ internal controls over financial reporting and disclosures. Reporting entities naturally develop work procedures that support business continuity. ISA Staff stresses that reporting entities should examine the effects of these work procedures on the effectiveness of its internal controls over financial reporting and disclosures, and determine alternative controls where necessary. Furthermore, ISA Staff directs reporting entities’ attention to Regulation 8B of the Reporting Regulations and its requirement to include in the quarterly report of internal controls a statement by the board of directors and the management, assessing whether, during the reporting period, they learned of any event or matter that might change the assessed effectiveness of the internal controls presented in the last annual or quarterly report, the later of the two reports. If such event occurred, reporting entities should include the information required by the Regulation, including a disclosure of the event and its effect on the assessed effectiveness of the internal controls. Reporting entities should provide details that support the conclusion reached by the board of directors and the management regarding the effects of the event (for example, details of changes made to the internal control in order to adjust them to the new conditions).

G. The auditor

The auditor is a critical gatekeeper in the capital market. The auditor’s role is to develop an independent opinion, based on auditing standards, on whether the entity’s financial statements are a fair representation, in all material respects, of the entity’s financial position, the results of its operations, and changes in its

[24] Note that these are illustrative examples only, and the disclosure should include all significant changes to disclosures included in the annual report, as noted above.

shareholders' equity and cash flows in the periods included in the reports, pursuant to IFRS and the law.

The Corona Crisis and the current situation are characterized by significant uncertainty in the economic and business environment, and have also created challenges for auditors who perform audits or reviews, as the case may be. **Nonetheless, the auditor's work and the development of an independent opinion on reporting entities' financial statements, based on a professionally skeptical stance, and which is critical in ordinary times, is even more critical in view of the current Crisis, in order to ensure that financial statements are of high quality and credibility, and are useful for investor decision making**.

As elaborated above, the current financial statements include numerous assessments that are based on significant judgments and estimates by reporting entities, both with respect to assessments of their financial position and the effects of the Corona Crisis on business operations, and with respect to the values presented in the financial statements. ISA Staff stress that auditors are required to implement the relevant auditing and review standards with due caution, applying an approach of professional skepticism and sufficient evidence collection to support their conclusion.