PwC Nigeria
Technical accounting newsletter

June 2020

Interbank Offered Rate (IBOR) reform and the effects on financial reporting

What: Replacement of benchmark interest rates such as the London Interbank Offered Rate (LIBOR) and other interbank lending rates

Why: Priority for global regulators following the financial crisis

Who: IBOR linked asset and/or liabilities

When: Near future – timing varies by jurisdiction

Given the pervasive nature of IBOR-based contracts among both financial institutions and corporates, there are significant potential impacts of these changes on financial reporting under International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) has a two-stage project to consider what, if any, reliefs to give from the effects of IBOR reform:

Phase 1:
The first phase of amendments dealt with pre-replacement issues (issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark). This phase focused on hedge accounting issues.

The IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* on 26 September 2019. Amendments were made to specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform.

The amendments should be applied for annual periods beginning on or after 1 January 2020.

Phase 2:
The second phase focuses on the financial reporting issues that may arise when IBOR rates are either reformed or replaced.

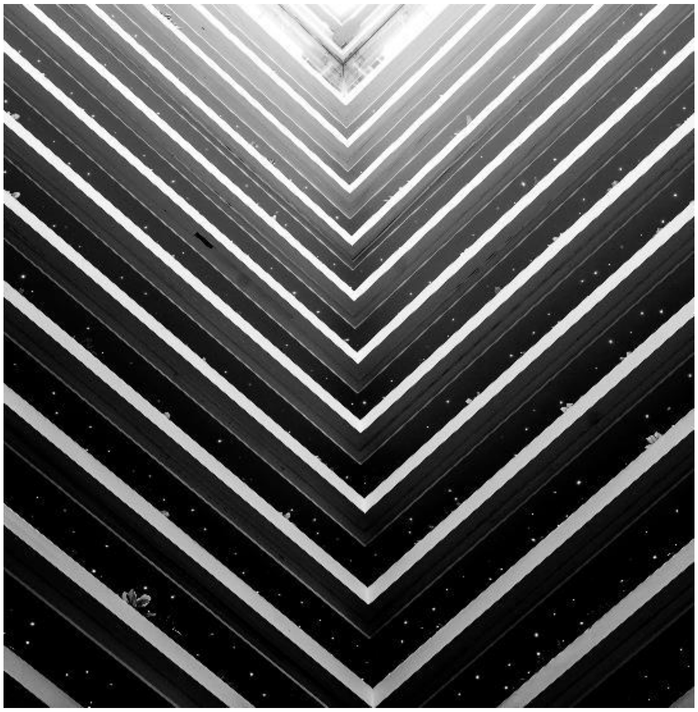
The IASB issued an exposure draft on 9 April 2020 which contains amendments to specific requirements in IFRS relating to:

- modifications of financial instruments and lease liabilities;
- hedge accounting; and
- disclosures

The IASB is currently seeking feedback on the *Exposure Draft Interest Rate Benchmark Reform—Phase 2*

Entities should:

- focus on understanding the amendments;
- perform an inventory of contracts affected by the amendments; and
- provide disclosures including how they are managing the transition process



IASB decides on new effective date for IFRS 17 of 1 January 2023

On 17 March 2020 the IASB deferred the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023. The Board also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 to enable them to implement both IFRS 9 and IFRS 17 at the same time.

The Board's decision to defer the effective date by two years from the original date to 2023 will enable insurers around the world to implement the new Standard at the same time, which the Board considers to be beneficial for investors, insurers and other stakeholders.

IFRS 16 COVID-19 rent concessions amendment

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments.

When there is a change in lease payments, the accounting consequences will depend on whether that change meets the definition of a lease modification.

On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

IFRS 16 has been amended to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in interim or year end financial statements not yet authorised for issue at 28 May 2020.

Financial Reporting Council of Nigeria (FRC) guidance for preparers of financial statements during COVID- 19 period

COVID-19 and its impacts on business activities are complex to assess and are likely to change any time. The FRC is concerned about the ability and readiness of reporting entities to develop appropriate processes that will ensure proper and adequate accounting and disclosures for credible financial reporting.

The FRC has issued guidance for the directors and those charged with governance to assess the risk of COVID-19 at an early stage of the financial reporting and audit process.

Guidance over the following items should be adopted to assess both the direct and indirect financial impacts. This guidance relates to the preparation of financial reporting (quarterly, interim and annual) ending on or after January 1, 2020 and 2019 financial statements that are yet to be finalised.

The detailed guidance can be accessed here.

Central Bank of Nigeria (CBN) policy measures in response to the COVID-19 outbreak

The COVID-19 pandemic is having significant adverse consequences for both the global and Nigerian economies. In furtherance of its financial stability mandate, the CBN has set out a number of measures to tackle the impact of the coronavirus.

Effective 1 March 2020, some of the new measures included:

- a one-year extension of a moratorium on principal repayments for CBN intervention facilities; and
- the reduction of the interest rate on intervention loans from 9% to 5%
- the creation of a N50 billion target credit facility administered through NIRSAL Microfinance Bank (NMFB) for eligible participants

In this newsletter we will focus on the financial reporting impact of the CBN target credit facility:

Government grants are assistance by the government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Grants given by local bodies, including inter-governmental agencies and similar bodies, are within the scope of IAS 20.

The majority of government grants as a result of COVID-19 are income grants because they are intended to compensate an entity for expenses incurred as a result of COVID-19.

Step 1: Is this a government grant?	Yes – it is specific government assistance in the form of a transfer of resources to eligible participants in return for compliance with certain conditions relating to the operating activities
Step 2: Who receives the relief? NMFB or the eligible participants?	NMFB facilitates the transfer - after final approval is received from CBN, funds are disbursed to NMFB who then facilitate the transfer to the eligible participants
Step 3: Reasonable assurance	Consider when the eligible participant has reasonable assurance that they will comply with the conditions of the facility and that the grant will be received
Step 4: Classification	Consider what expense or economic loss is the grant intended to compensate for and how is that expense or economic loss is recognised based on the applicable IFRS standard
Step 5: Recognition	Recognise the grant in profit or loss in a manner that matches the pattern of recognition for the related expense or economic loss
Step 6: Presentation	Consider how to present the grant income (whether it is presented gross or net of the related expenditure in accordance with the accounting policy choice in IAS 20)

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As part of our PwC Cares Covid-19 intervention, we have set up a Knowledge Hub with insights to support businesses and governments in their response to the impacts of COVID-19

Visit our COVID-19 Content Hub at www.pwc.com/ng/covid-19

Access COVID-19 Resources on PwC Nigeria's Tax 247 Mobile App available on both Google Play Store and the Apple App store