



Need to know

Financial Reporting Considerations Related to the Russia-Ukraine War

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For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

Introduction

The geopolitical situation in Eastern Europe intensified on 24 February 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighbouring countries (e.g. Belarus) or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, many entities globally may need to consider the effect of the war on certain accounting and financial reporting matters. The degree to which entities are or will be affected by them largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

Political events and sanctions are continually changing and differ across the globe. Whilst this alert does not address such activities specifically, it is intended to raise awareness of some of the key impacts of the Russia-Ukraine war that entities need to consider. These include:

- Interruptions or stoppage of production in affected areas and neighbouring countries.
- Damage or loss of inventories and other assets.
- Closure of roads and facilities in affected areas.
- Supply-chain and travel disruptions in Eastern Europe.
- Volatility in commodity prices and currencies.
- Disruption in banking systems and capital markets.
- Reductions in sales and earnings of business in affected areas.
- Increased costs and expenditures.
- Cyberattacks.

It is important that entities consider their direct and indirect exposures to the impacts of the war and consider the financial accounting and reporting implications, which could be numerous, particularly for entities with material subsidiaries, operations, investments, contractual arrangements, or joint ventures in Ukraine and Russia. Entities with significant suppliers, vendors, or customers in Ukraine or Russia, as well as organisations that lend to or borrow from entities in those countries, also may experience accounting challenges. Even entities that do not have direct exposure to Ukraine or Russia are likely to be affected by the overall economic uncertainty and negative impacts on the global economy and major financial markets arising from the war.

The significance of the issues discussed in this newsletter will of course vary depending on an entity's industry and circumstances, but those related to the following topics could be among the most pervasive and challenging:

- *Supply-chain disruption* — Entities, regardless of whether they have direct operations in Russia or Ukraine, are likely to experience additional supply-chain disruptions as a result of the war, including shortages of materials, higher costs of energy, commodities and freight, and increased transportation delays. Given these challenges, entities may need to assess, for example, whether a write-down of inventories to net realisable value is required and the potential impact on their revenue from contracts with customers.
- *Preparation of forecast cash flow estimates* — The use of forward-looking information is pervasive in an entity's assessment of, among other things, the impairment of non-financial assets (including goodwill), expected credit losses, the recoverability of deferred tax assets, and the entity's ability to continue as a going concern. The following are some of the complexities associated with the preparation of forecast information as a result of the war:
 - There is a wide range of uncertainty associated with the war's possible outcomes, which may influence an entity's long-term operating plan in the affected countries.
 - The economic impact of the war depends on variables that are difficult to predict. Examples include the duration and degree to which government sanctions restrict the ability to operate in Russia and the nature and effectiveness of government assistance, if any, to the affected entity.
 - The need for the entity to translate the effect of macroeconomics conditions into estimates of its own future cash flows.

Nevertheless, an entity will need to make good faith estimates, prepare comprehensive documentation supporting the basis for such estimates, and provide robust disclosure of the key assumptions used and, potentially, their sensitivity to change.

- *Recoverability and impairment of assets* — Perhaps the most salient examples of the increased challenge associated with forecast information are the impairment tests for non-financial assets (for example, property, plant and equipment, right-of-use assets, intangible assets and goodwill) and the expected credit allowances for financial assets. The impairment test for these assets often requires the development of cash flow projections that are subject to the significant uncertainties as a result of the war.
- *Loss of control, joint control or the ability to exercise significant influence, or cessation of operations* — Because of significant changes in the economic and political environment as a result of the war, entities with subsidiaries, investments, or operations in the affected regions may lose control, joint control or the ability to exercise significant influence over such operations. Alternatively, entities may determine that they will dispose of their interests and exit affected countries. Accordingly, entities may need to reconsider their accounting conclusions related to, for example, consolidation and the application of the equity method.

In addition, entities may decide, or be forced, to sell or abandon non-current assets in the affected regions. If the assets meet held for sale criteria, the entity is required to measure them at the lower of their carrying amount and fair value less cost to sell. Assets that are to be abandoned are not classified as held for sale; however, before the assets are actually abandoned, an entity should consider whether they are impaired on a continued used basis. Entities may also need to consider whether disposal groups should be presented as discontinued operations.

- *Foreign Currency* — As a result of the sanctions against Russia and Belarus, it is possible that foreign currency restrictions or the development of multiple exchange rates could arise in certain countries. In addition, if there are persisting inflation spikes in Russia and the neighbouring countries, entities may be required to assess whether the economies of those countries have become highly inflationary economies. These events may impact the recognition and measurement of financial statements. Further, inflation and foreign exchange rate data in the affected countries may become scarce, unreliable or subject to manipulation in such a way that entities may need to provide appropriate disclosures to avoid misleading financial statement users.

- *Events after the end of the reporting period* — It may be challenging for an entity to separate adjusting and non-adjusting events after the end of the reporting period in a global marketplace that is extremely volatile and in which major developments occur daily (e.g. the stock market's daily reaction to new information). In particular, when considering the guidance in IAS 10 *Events after the Reporting Period* on recognition and disclosures related to events after the end of the period, entities should carefully evaluate information that becomes available after the reporting date but before the date the financial statements are authorised for issue. The amounts in the financial statements must be adjusted only to reflect subsequent events that provide evidence of conditions that existed at the reporting date. As noted in IAS 10:21, an entity must disclose both the nature and an estimate of the financial effect (or a statement that an estimate cannot be made) of non-adjusting events after the end of the reporting period when the absence of such disclosures could reasonably be expected to influence decisions that users make on the basis of the financial statements.

With respect of reporting periods ending on or before 31 January 2022 (i.e. before 24 February 2022) entities should address the potential impact of the economic and geopolitical risks arising from the war as non-adjusting events. However, depending on the war's duration and evolution, for subsequent reporting periods, the effects of the war may affect the recognition and measurement of assets and liabilities in future financial statements. This will be highly dependent on the reporting date and the specific circumstances of the entity's operations.

- *Going concern* — An entity will need to assess its specific circumstances and consider whether it has the ability to continue as a going concern at least, but not limited to, 12 months from the reporting date. Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. This will require an entity to consider, among other things, (1) the extent of operational disruption, (2) potential diminished demand for products or services, (3) contractual obligations due or anticipated within one year, (4) potential liquidity and working capital shortfalls, and (5) access to existing sources of capital (e.g. available line of credit). In making its going concern assessment, IAS 10 requires an entity to consider events up to the date of authorisation of the financial statements. In certain jurisdictions, regulations may extend this period (e.g. until presentation of the financial statements at an annual shareholders' meeting).

In assessing whether the going concern basis is appropriate, UK companies should consider a period of at least 12 months from the date the financial statements are authorised for issue.

Entities must carefully consider their unique circumstances and risk exposures when analysing how the war may affect their financial reporting. Specifically, financial reporting and related financial statement disclosures need to convey all material current or potential effects of the war.

Although it may be too early to assess the war's broad implications, an entity's related accounting and financial reporting considerations may be similar to those arising from a severe economic downturns or catastrophic natural disasters.

Material Judgements and Estimates

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into the entity's resilience in the face of the current uncertainty and to understand the key assumptions and judgements made when preparing financial information.

Depending on an entity's specific circumstances, each of the areas discussed in this publication may be a source of material judgement and uncertainty that requires disclosure applying IAS 1 *Presentation of Financial Statements*. Where this is the case, the entity should provide disclosures, distinguishing between:

- Significant judgements (disclosure required by IAS 1:122), i.e. judgements other than estimations made in applying an entity's accounting policies, often as to how an item is characterised; and
- Significant sources of estimation uncertainty (disclosure required by IAS 1:125, if the source of estimation uncertainty results in a significant risk of material adjustment to assets or liabilities within the next financial year), i.e. assumptions or other sources of estimation uncertainty (including judgements involving estimation), primarily over the carrying amount of an item.

The disclosure provided about the key assumptions, including the sensitivity analysis based on a range of reasonably possible outcomes, should reflect the conditions at the reporting date. When key assumptions, or the range of reasonably possible changes to those assumptions, are affected significantly as a result of non-adjusting events after the reporting date, information about those changes, including an estimate of the financial effect, should be provided separately (see the **Events after the End of the Reporting Period** section).

A Deloitte [Need to know](#) publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Alternative Performance Measures

Entities that are significantly affected by the war may consider providing new alternative performance measures (APMs) or adjust existing APMs. The use of APMs has been an area of regulatory concern in many jurisdictions around the world, with the International Organization of Securities Commissions ("IOSCO") publishing a [Final Statement on Non-GAAP Financial Measures](#) in 2016. ESMA, the European Securities and Markets Authority, also issued [Guidelines on Alternative Performance Measures](#) ('APM Guidelines') that are consistent with those of IOSCO. The APM Guidelines apply to all financial measures not defined or specified in the applicable financial reporting framework including liquidity and cash flow measures.

Any new adjustments or changes to APMs related to the war should be clearly labelled, and changes to such measures should be transparently disclosed.

Further, when evaluating whether a war-related adjustment is appropriate, an entity should consider whether the adjustment is directly related to the war and the impacts associated with it and is objectively quantifiable.

Entities should consider any additional expectations related to disclosure of these matters that have been articulated by regulators in their jurisdictions.

Broad Financial Reporting and Accounting Considerations

Forecasting

Many entities may face significant challenges related to forecasting as a result of ongoing uncertainties associated with the Russia-Ukraine war. These challenges are compounded by inflation unlike that seen in the past 40 years as well as on-going supply-chain issues that began during the COVID-19 pandemic, some of which may involve shortages of key components needed for production.

In response to cost structure changes that include higher inventories and freight costs along with pressure to increase employee compensation, entities should consider how they expect the altered cost structures to continue into the future and evaluate whether they will be able to offset any increased costs with pricing adjustments. If entities are unable to procure resources needed to produce and deliver goods and services, they may see a significant decline in revenues.

Forecasts are used in a variety of accounting estimates, including, but not limited to, those related to the assessment of goodwill and other non-financial assets for impairment, expected credit losses assessments, recoverability of deferred tax assets, liquidity analysis and the appropriateness of the going-concern presumption. In developing forecasts and assessing the related accounting implications, an entity should consider whether the effects of the uncertainties are short-term or long-term and how that determination will affect various accounting estimates. It should also ensure that the forecasts used in business planning are consistent with those used in developing accounting estimates.

Inflation

The Russia-Ukraine war has exacerbated the current inflationary environment in Russia, as a result of sanctions that devalue its currency, and in other countries, as their businesses and currencies react to the war's implications worldwide. Although inflation affects entities differently, there are some common considerations related to the evaluation of how recent inflationary trends may affect their accounting and financial reporting.

For example, because inflation is most likely driving up the costs of acquiring goods, inventories and related packaging materials as well as employee wages, entities should consider whether they can pass along those increased costs to their customers. See the **Supply-Chain Disruptions** and **Inventories** sections for considerations related to costs that are recognised as part of the cost of inventories.

Entities may also have increased costs associated with long-term revenue contracts that they may or may not be able to pass along to their customers. If an entity is unable to raise its prices under a revenue contract, it may incur a loss or a decline in its estimated profitability associated with the contract. Entities should consider the potential accounting implications of reduced or negative profitability on a revenue contract, including the period in which to recognise a loss, if applicable. See the Revenue Contracts with Customers and the Onerous Contracts Provisions sections for further discussion.

As a result of inflation, long-term contracts such as leases or certain supply agreements may need to be renegotiated, which in turn may have accounting implications. For example, if a lease contract is modified, an entity may (depending on the terms of the modification) be required to revise the incremental borrowing rate which can be significantly affected by the rise in inflation.

In addition, inflation may lead to an increase in interest rates and corresponding declines in the value of fixed-rate financial assets. Entities should also consider the impacts of inflation on estimated allowances for credit loss.

As entities review their investment strategies in light of recent and on-going inflation, they may consider making different types of investments or moving away from holding excess cash on hand. For example, an entity may consider investing in gold, digital assets (such as cryptocurrencies) or inflation-indexed debt securities. Entities contemplating such investments should consider the complex accounting and financial reporting that may result from holding them.

Further, entities may need to monitor the appropriateness of the discount rate used to measure any pension-related liabilities, particularly since even a seemingly small change in the discount rate can significantly affect an entity's pension liability. For example, higher interest rates may lead to decreases in both pension liabilities and the required employer contributions. However, such decreases may be offset by higher employee wages.

Supply-Chain Disruptions

Supply-chain disruptions that were already prevalent during the COVID-19 pandemic have intensified as a result of the Russia-Ukraine war. Resulting shortages include key exports from Russia and Ukraine, such as palladium, oil, natural gas, wheat, and sunflower oil, as well as goods that may involve longer and more expensive cargo freight routes.

For many entities, such disruptions are increasing the costs associated with moving goods through the supply chain. Entities should consider whether these costs form part of the cost of inventories and, if so, whether a write-down of inventories to net realisable value is required. This determination is likely to vary by industry and entity given (1) the use of different types of materials, (2) supplier diversity, and (3) an entity's ability to transfer cost increases to its customers through higher selling prices. See the **Inventories** section for further discussion.

As raw materials, finished goods, and supplies make their way through a disrupted supply chain, entities should consider the point in time at which the buyer assumes ownership of them to ensure their appropriate recognition in the statement of financial position. If transit times increase or the transport of goods is stalled, entities that historically may have had only immaterial amounts of goods in transit because of short transfer times may find it necessary to implement more robust accounting processes and internal controls to appropriately account for their inventories (some of which may be physically held by third parties). Likewise, entities should ensure that suitable cut-off procedures result in revenue recognition in the appropriate period.

Further, entities struggling to obtain certain products that are inputs to finished goods may consider adjusting their manufacturing processes to use different inputs or produce the products differently. Entities should also consider whether the need to use alternate raw materials or processes affects the warranties offered and the accounting for those warranties. Changes in the terms and conditions of warranties, the expected life of products, or expected warranty claims may differ by product type, and such differences, combined with increased material and labour costs, could affect the related warranty accounting.

Classification in the Statement of Financial Position

The Russia-Ukraine war has triggered a series of economic and other sanctions against Russia and Belarus, and additional sanctions may be imposed by various countries and organisations. Entities should consider whether the classification of certain assets as current is still appropriate in light of those sanctions. They should also consider both the direct impact (restrictions imposed on assets) and the indirect impact (restrictions that may cause challenges in selling, realising, or consuming assets) of the sanctions. For a discussion of the impact of the war on debt classification, see the **Classification of Current and Non-Current Financial Liabilities** section.

Cash and Cash Equivalents

The sanctions imposed against Russia and Belarus could directly affect an entity's ability to use or withdraw cash or cash equivalents. For example, the exclusion of certain Russian and Belarus financial institutions from the Society for Worldwide Interbank Financial Telecommunication (better known as SWIFT) will disrupt executions of banking transactions that involve those financial institutions. As a result, entities that have cash or cash equivalents in those financial institutions could experience restrictions on withdrawals or on their use of the cash or cash equivalents for current operations.

Paragraph 48 of IAS 7 *Statement of Cash Flows* requires an entity to disclose information about the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

Other Assets

In light of the sanctions imposed against Russia and Belarus, entities should consider whether classification of other current assets is appropriate.

Under IAS 1:66, current assets include, among others, assets that are expected to be realised or intended to be sold or consumed in the normal operating cycle of the business (typically 12 months). Management may need to exercise significant judgement when considering the indirect impact of sanctions and other restrictions imposed on assets. Given that in many cases, the ultimate effect of the sanctions and restrictions will not be known, disclosing their nature may help investors evaluate the potential impact of sanctions on the classification of assets as current versus non-current.

Financial Liabilities

Under IAS 1:69, a liability is classified as current if, among others, it is due to be settled within 12 months after the reporting period or the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Unstable trading conditions in the affected regions may increase the risk that entities breach financial covenants (e.g. fail to achieve a specified level of profits or interest coverage). If a breach occurs on, or before, the reporting date and the breach provides the lender with the right to demand repayment within 12 months of the reporting date, the liability should be classified as current in the entity's financial statements (unless an agreement is obtained on or prior to the reporting date that gives the entity a right to defer payment beyond 12 months after the reporting date). In contrast, a breach of loan covenants after the reporting date is a non-adjusting event that should be disclosed in the financial statements if the information is material (including the stage of the discussions with lenders to address the breach, if applicable). A breach after the reporting date could create uncertainty that raises substantial doubt about the entity's ability to continue as a going concern.

The discussion in the paragraph above does not reflect the recent amendments to IAS 1 *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*, which are effective for annual reporting periods beginning on or after 1 January 2023.

Classification in the Statement of Profit or Loss

Under IAS 1:97, if an entity concludes that an item of income or expense is material, it must either present its nature and amount as a separate line in the statement of profit or loss and other comprehensive income or provide disclosure in the notes to the financial statement. However, the presentation of items as being "extraordinary" is specifically prohibited by IAS 1:87. Additional requirements from local regulations that may restrict the format used in presenting the statement of profit or loss will also need to be considered.

An entity may need to use significant judgement when determining whether an item should be separately presented or disclosed. In certain circumstances, it may be reasonable for an entity to present separately some significant direct and incremental costs or benefits related to the war (e.g. asset impairments, costs of exiting a country, or business interruption insurance recoveries).

In addition, as the war evolves, an entity's manner of conducting business may change. Accordingly, it may become more difficult to objectively distinguish items that warrant separate presentation or disclosure from those that are the new normal.

Impairment and disposal of Non-Financial Assets (including Goodwill)

Inventories

The Russia-Ukraine war may affect the recoverability of certain inventories balances. Entities with inventories located in regions affected by the war or that were previously expected to be sold to customers in those regions may have to assess whether trade sanctions imposed by certain governments may preclude them from disposing of their inventories in the normal course. As a result of those sanctions or the inability to access other markets, inventories may become obsolete or slow-moving.

Applying IAS 2 *Inventories*, inventories are measured at the lower of their cost and net realisable value (NRV). NRV is an entity-specific measurement defined as “the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”. In a volatile economic environment, it may be particularly important for entities to determine whether the utility of their inventories on hand has been impaired. Interim inventory impairment losses should be reflected in the interim period in which they occur, with subsequent recoveries recognised as gains in future periods.

In addition, entities with noncancellable firm purchase commitments for inventories should consider whether the contracts have become onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and if so, recognise a provision for the unavoidable net loss arising from the contracts.

IAS 2 requires that variable production overhead costs should be allocated to each unit of production based on the **actual use** of the production facilities. It also calls for the allocation of fixed overhead costs to each unit of production based on the **normal capacity** of the production facilities. A manufacturing entity with facilities in regions affected by the war or neighbouring countries may experience numerous challenges (e.g. shortages of labour and materials, supply-chain disruptions, unplanned factory downtime) that, if sustained, may result in an abnormal reduction of its production levels. Such an entity should not increase the amount of fixed overhead costs allocated to each inventories item. Instead, the entity should recognise the unallocated fixed overhead costs as an expense in the period in which they are incurred. If the entity presents an analysis of expenses by function, these costs are included as part of cost of sales.

Entities should also consider carefully the guidance in IAS 2:15 which requires that abnormal amounts of wasted materials, labour and other production costs be recognised as an expense in the period they are incurred. For example, certain raw materials inventories may no longer be accessible (resulting in spoilage), and certain inventories located in the regions affected by the war may need to be relocated. Depending on the facts and circumstances, those incremental costs could be considered abnormally high costs or spoilage that otherwise would not have been incurred and should be expensed. In addition, inventories may be in transit for longer periods than in the past. Entities should have proper cut-off procedures to ensure inventories purchased or sold is being recognised in the appropriate period.

Costs to Obtain or Fulfil a Revenue Contract and Up-Front Payments to Customers

An entity may have recognised costs to obtain or fulfil a contract as an asset in accordance with IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 provides guidance on determining the appropriate amortisation period and on recognising any impairment loss on such an asset. An entity may need to update its amortisation approach to reflect any significant changes in the expected timing of the transfer of the related goods or services. In addition, an entity must recognise an impairment loss if the carrying amount of the asset exceeds (1) the sum of the amount of consideration expected to be received and the amount of consideration already received but not yet recognised as revenue, less (2) the costs that are directly related to providing the remaining promised goods or services under the contract that have not been recognised as expenses. The consideration determined in (1) above should be adjusted to account for the customer's credit risk, and the amounts determined under both (1) and (2) should include the effects of expected contract renewals from the same customer. An entity may also need to consider whether contract modifications or changes in expectations regarding customer renewals affect the amortisation or recoverability of these revenue-related costs.

An entity may also have recognised up-front payments to customers as an asset that are reflected as a reduction in the transaction price. If so, it would be reasonable for the entity to perform similar analyses for any asset recognised for such up-front payments.

Further, an entity should evaluate contract assets for impairment by using the same model as for trade receivables. See **Financial Instruments** section for more information.

Assets subject to the requirements of IAS 36

Changes in an entity's business or legal environment, such as sanctions, export controls, or the reduction or cessation of operations as a result of the Russia-Ukraine war, may lead to impairment of the entity's assets.

IAS 36 *Impairment of Assets* seeks to ensure that an entity's assets are carried at not more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). IAS 36 does not require an entity to monitor constantly assets (including goodwill) for indications of impairment. Instead, IAS 36:9 requires entities to assess at the end of each reporting date (interim and annual) whether there is any indication that assets may be impaired and, if such an indication exists, perform an impairment test. In addition, IAS 36:10 requires an entity to test intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill for impairment annually, at the same time every year. The test is conducted for a 'cash-generating unit' (CGU) when an asset does not generate cash inflows that are largely independent of those from other assets.

The scope of assets subject to the requirements in IAS 36 is broad. It includes property, plant, and equipment (carried at cost or revalued amount), intangible assets (carried at cost or revalued amount), goodwill, right-of-use assets (if carried at cost), investment property (if carried at cost), biological assets (if carried at cost) and investments in associates and joint ventures accounted for using the equity method. Note that interests in associates and joint ventures not subject to the equity method, such as loans, are subject to the impairment requirements in IFRS 9 *Financial Instruments*. In an entity's separate financial statements, investments in subsidiaries, associates and joint ventures (other than those accounted for in accordance with IFRS 9) are also subject to the requirements of IAS 36.

Indicators of impairment include (but are not limited to) significant changes with an adverse effect on the entity that have taken place during the period, or will take place in the near future, in the market or economic environment in which the entity operates. An entity will also need to consider the extent to which, or the manner in which, an asset is used or is expected to be used (for example, an asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to dispose of an asset before the previously expected date).

Factors resulting from the war which may indicate that the carrying amount of an asset or CGU may not be recoverable may include (1) increased costs/business interruptions due to supply chain issues, (2) changes in cash flow expectations for an asset or a group of assets, (3) an entity's decision to abandon an asset or group of assets given the changing political and business environment in affected areas, or (4) direct damage to the asset.

In addition, given recent stock market price declines, the carrying amount of the net assets of an entity may exceed its market capitalisation. IAS 36 notes that this situation is a further indicator of impairment.

If there is indication that the asset may be impaired, the underlying facts should be kept in mind when performing the annual review of the useful life of the asset, the depreciation or amortisation method used and the estimated residual value. These items may need to be adjusted even if no impairment loss is recognised.

Disposals and idle assets

An entity may conclude that non-current non-financial assets either directly or indirectly affected by the war will be sold, abandoned, or otherwise disposed of.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires that assets (or disposal groups) held for sale are not depreciated, but instead are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the statement of financial position. In order for the asset (or disposal group) to be classified as held for sale, it must be available for immediate sale in its current condition and the sale must be highly probable. In particular, the sale must be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

A non-current asset that will be abandoned is not classified as held for sale until it is disposed of. Such an asset is disposed of when it ceases to be used. For example, manufacturing equipment that an entity expects to cease using after fulfilling a backlog of orders is not considered abandoned while the entity is still using it. However, if an entity decides, or is required, to abandon a non-current asset (asset group) as a result of the war before the end of its previously estimated useful life, the entity should revise its depreciation estimates to reflect the use of the asset group over its shortened useful life and residual value in a manner consistent with the decision to abandon.

Further, as indicated in paragraph 55 of IAS 16 *Property, Plant and Equipment*, depreciation of an asset does not cease when an asset becomes idle or is retired from active use unless the asset is fully depreciated. If the depreciation is calculated by reference to the usage of the asset, however, the depreciation recognised may be zero while there is no production.

In any case, when an asset becomes temporarily idle, is retired from active use, or is expected to be abandoned, this may trigger the recognition of an impairment loss which will result in the reduction of the carrying amount of the asset to its estimated recoverable amount.

An entity may determine that a specific asset has been destroyed as a result of the war. In such a case, the entity would need to write off the asset even if the group the asset is part of is determined to be recoverable as a whole.

Impact of insurance on impairment losses and write offs

Entities often maintain insurance to mitigate losses in the event of property damage or casualty losses. IAS 16 emphasises that impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and should be accounted for as such. The three economic events should be accounted for separately as follows:

- In respect of impairment or loss:
 - Impairments of items of property, plant and equipment should be recognised in accordance with IAS 36.
 - Derecognition of items of property, plant and equipment retired or disposed of should be determined in accordance with IAS 16.
- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in determining profit or loss when it becomes receivable.
- The cost of items of property, plant and equipment restored, purchased or constructed as replacements should be determined in accordance with IAS 16.

See the **Insurance Recoveries** section for more information.

Financial Instruments and Contract Assets

Impairment and Valuation Considerations

As a result of the Russia-Ukraine war, entities may need to assess their investments and loans for impairment. Investments that may be affected include equity securities, loans and debt securities including, in certain instances, investments in sovereign debt. Moreover, the war may cause additional volatility in global financial markets, which affects the fair values of financial instruments more generally, including investments and derivatives (e.g. credit spreads may widen or the creditworthiness of counterparties may be affected).

Allowance for expected credit losses (ECL)

The Russia-Ukraine war can affect the ability of borrowers, whether corporate or individuals, to meet their obligations under loan relationships. Individual and corporate borrowers may have a particular exposure to the economic impacts in their geography and industry sector. More broadly, reductions in forecasts in economic growth increase the probability of default across many borrowers and loss rates may increase due to the fall in value of collateral, as evidenced more generally by falls in prices of assets.

Applying IFRS 9, an entity should measure ECL in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- the time value of money.
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The impact of the war on ECL will be particularly challenging and significant for banks and other lending businesses. The effect could also be significant for non-financial corporates. This is because ECL does not only apply to loans but also applies to many investments in interest-bearing financial assets (e.g. bonds and debentures), trade receivables, contract assets, lease receivables, issued loan commitments and issued financial guarantee contracts. The extent of these exposures in non-financial corporates may also be greater in the separate financial statements due to intra-group transactions such as intra-group loans or guarantees provided by the reporting entity on other group entities' debt obligations.

Under the general model for impairment, ECL is recognised for 12-month ECL or lifetime ECL dependent on whether there has been a significant increase in credit risk ("SICR") of a financial asset (or other exposure) since initial recognition (a "staging" analysis). This analysis requires the estimate of lifetime probability of default at initial recognition of a financial asset and at each reporting date thereafter, based on an assessment of forward-looking information which is particularly challenging given uncertainties of the eventual impact of the Russia-Ukraine war. Despite the challenges, entities are still required to make estimates based on reasonable and supportable information that is available without undue cost or effort at the reporting date. Sources of such information can include information used in the entity's ongoing credit evaluation processes and financial forecasts for economies or industries that are becoming available over time. The difficulties associated with making estimates and assumptions in these uncertain times are not a basis for entities not to update ECL measurements.

As ECL are the sum of the probability weighted discounted cash shortfalls, such cash shortfalls can arise for reasons that are not necessarily due to a lack of financial resources of the borrower. For example, a borrower may have sufficient funds to service and/or repay a loan but have reduced, or little to no, ability to do so because of sanctions or other impediments, such as lack of access to the specific currency needed for payment under the loan. Such impediments may limit the ability of the borrower to pay amounts that are due even if it has sufficient financial resources to do so. Such impediments should be reflected as part of the cash shortfalls that form the basis for the expected credit loss provision.

Trade receivables

For entities with financial assets such as short-term trade receivables and contract assets, the complexity of the estimate of ECL is reduced due to the application of the simplified approach. Under this approach there is no requirement for a complex staging analysis to be performed as lifetime ECL is recognised from the date of initial recognition. However, measurement of lifetime ECL follows the same principles as under the general model.

In practice, the measurement of ECL for portfolios of trade receivables does not usually require complex analysis. The average historical credit losses on a large group of trade receivables with shared risk characteristics may until now have been a reasonable estimate of the probability weighted expected loss amount. A common example of a loss rate approach used for trade receivables is a provision matrix developed using historical credit loss experience. IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The Russia-Ukraine war may require entities to revisit the provision matrix approach and consider the following:

- The amount and timing of the ECL as well as the probability assigned to alternative scenarios must be based on reasonable and supportable information that is available without undue cost or effort at the reporting date without the use of hindsight. Entities will need to reconsider their previous credit loss expectations if these are based on unadjusted historical experience that is not reflective of the current market conditions and forward-looking information. In many cases, this may require significant judgement given the uncertainties present (e.g. impact of sanctions, evolution of the war, etc.).
- There may be a lack of relevant historical data reflecting sufficiently adverse economic conditions on which to base the estimate. An entity may already be observing the default of debtors and will need to determine the impact that these observations have on expectations of recoveries and future default of other debtors.
- Greater volatility in potential economic conditions, even over the relatively short exposure period of trade receivables, will increase the importance of considering multiple economic scenarios in determining expected loss rates.
- With greater incidence of individual receivables in default, loss rates may need to be applied to individual receivables or sub-portfolios of receivables if the receivables in the overall portfolio no longer exhibit similar credit risk characteristics. This may result in a requirement to apply the provision matrix at a more granular level or to assess a greater number of receivables on an individual basis. Entities should ensure that any estimate of ECL on an individual debtor reflects a probability-weighted outcome and that an appropriate loss allowance continues to be recorded on a collective basis for all receivables that are not assessed individually.

The above considerations also apply to contract assets recognised under IFRS 15.

Other receivables

Although a staging analysis may not be required for trade receivables and contract assets, most entities will have some financial assets that are accounted for under the general model rather than the simplified model for which a staging analysis will be needed. For example, intercompany receivables, lending balances with entities outside the group and receivables relating to business disposals. The impact of forward-looking information and multiple economic scenarios is also likely to be more significant for such assets.

As a result of the increased weighting to negative economic scenarios and exposures to specific industry sectors or geographical areas that are most significantly affected by the war, entities will therefore need to reconsider the appropriateness of past methods for assessing ECL and ensure up to date inputs are used.

Issued financial guarantee contracts

Parent entities sometimes issue financial guarantee contracts (FGC) to lenders of their subsidiaries, associates or joint ventures that allow the lender to claim any losses suffered due to non-payment of those entities. In the issuer's separate financial statements, or those of the group when debt of an associate or joint venture is being guaranteed, if the entity or group is not applying insurance accounting for the FGC, a liability for the issued FGC must be recognised and measured at the higher of the unamortised premium and the ECL determined in accordance with IFRS 9. If the war affects significantly the operations of subsidiaries, associates or joint ventures, the resulting increase in the risk of default will lead to increased ECL amounts.

Fair value measurements

IFRS 13 Fair Value Measurement emphasises that fair value is a market-based measurement based on an exit price notion and is not entity-specific. Therefore, a fair value measurement must be determined on the basis of the assumptions that market participants would use in pricing an asset or liability, whether those assumptions are observable or unobservable. In accordance with the fair value hierarchy, entities are required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Even in times of extreme market volatility, entities cannot ignore observable market prices on the measurement date unless they are able to determine that the transactions underlying those prices are not orderly. In accordance with IFRS 13:B43, in determining whether a transaction is orderly, an entity cannot assume that an entire market is "distressed" (i.e. that all transactions in the market are forced or distressed transactions) and place less weight on observable transaction prices in measuring fair value.

In addition to considering whether observable transactions are orderly, entities should take into account the following valuation matters that could be significantly affected by the Russia- Ukraine war:

- An evaluation of the inputs used in a valuation technique and, in particular, the need to include the current market assessment of credit risk (both counterparty and own credit risk) and liquidity risk, both for derivative and nonderivative instruments. This may also involve the need to change valuation techniques or to calibrate valuation techniques to relevant transactions.
- An assessment of whether the entity can rely on data from brokers and independent pricing services when determining fair value.

In cases of extreme volatility securities exchanges may close, as was the case for the Moscow Exchange on 25 February 2022. The absence of readily available transactions on an organised exchange does not negate the need to determine fair value at the measurement date. Transactions in the security may have occurred in other jurisdictions or on over-the-counter markets, or for similar securities, which provide relevant information as to the change in market prices of financial instruments since the organised exchange was temporarily closed. Such information would be relevant for determining fair value using a valuation technique.

Reconsideration of the fair value measurement hierarchy may be required if the amount of buying and selling in a particular financial instrument has changed.

In addition, except in rare circumstances, IFRS 13 requires that when a level 1 input is available (i.e. unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date), it must be used without adjustment. Hence, to use the price in the principal (or most advantageous) market as the basis for measuring fair value, an entity must have access to that market at the measurement date. Entities may need to consider whether the impacts of the Russia-Ukraine war affect the identification of the principal market to which they have access and/or the fair value hierarchy applicable to their financial instruments.

Liquidity risk management

Increased costs of production (e.g. because of inflation or increased energy costs) can have implications on an entity's working capital and could lead to a breach of a debt covenant resulting in the liability becoming current.

Entities may look for ways to manage this risk, including the use of alternative sources of funding, such as later payment to suppliers and arrangements with financial institutions such as supplier finance and reverse factoring which may permit the entity to draw down on finance in exchange for the financial institution paying the entity's suppliers. When entities have previously determined that liabilities to banks in these scenarios are presented as trade or other payables rather than as borrowings, any extension in the repayment term will require a reassessment of the classification to ensure it remains appropriate. Disclosure of these facilities will be critical particularly when they are material to the entity's funding or viability.

Entities may also seek to obtain early settlement of their trade receivables via a financial institution buying the receivables at a discounted amount to the invoice amount. Such transactions should be carefully assessed to determine if derecognition of the factored receivables is appropriate.

Concentration risk may be particularly significant to some entities when customers are concentrated in an adversely affected industry or geographies. Such entities will need to give clear disclosure of the potential impact on liquidity if significant.

Entities should consider how the use of working capital enhancement or management techniques is reflected in the entity's disclosure of its liquidity risk management as required by IFRS 7 *Financial Instruments: Disclosures*. Entities should also consider the specific disclosure requirements in IFRS 7 for transfers of financial assets when financial assets are sold to fund working capital needs, and the accounting policies and judgements applied in determining the presentation in the statements of financial position and of cash flows of amounts due and paid when supplier finance and reverse factoring arrangements are used. For example, entities should consider providing sufficiently detailed quantitative and qualitative disclosures about:

- their access to cash and sources of finance (including reverse factoring arrangements).
- any changes or likely changes to the existing financing arrangements.
- any new arrangements entered into.
- credit gradings and any changes which impact cost or access to funding (e.g. if the grading falls below investment grade).
- any developments subsequent to the reporting date.

Entities that rely on the extended financing terms provided by reverse factoring arrangements to manage liquidity risk through the option to pay the financial institution later than it would have paid the supplier(s), will need to ensure that the impact of these programmes is properly disclosed. Indeed, if a financial institution were to withdraw the arrangement this could adversely affect the entity's ability to settle liabilities, particularly if the entity were already in financial difficulty.

Entities may also need to reconsider the existing classification of certain investments such as cash equivalents under IAS 7. To be classified as a cash equivalent, an investment, for example in a money market fund, must be held for the purpose of meeting short-term cash commitments and must be readily convertible to known amounts of cash and subject to insignificant changes in value. Current economic conditions are likely to increase the volatility in prices of many investments and reduce their liquidity.

Classification of financial assets

Some entities may decide to sell receivables as part of their strategy to manage their credit and liquidity risks. Where such receivables are treated as "held to collect" and measured at amortised cost an increase in frequency and value of sales may result in the need to consider whether there has been a change in the entity's business model or whether a new business model has been initiated.

Entities should analyse any increase in sales to determine, among other things, whether the increase is expected to persist (e.g. if the sales are in response to temporary increases in credit or liquidity risk) or whether future sales volumes will be lower in frequency or value. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not normally considered to be inconsistent with a held to collect business model because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a business model.

Some entities that have assets that are held under a “held to collect and sell” or “held to sell” business model may find that previously anticipated sales are no longer expected to take place due to a reduction in asset values or in the liquidity of the relevant market. IFRS 9:B4.4.3 states that neither a change in intention related to a particular asset (even in circumstances of significant changes in market conditions), nor a temporary disappearance of a particular market represent a change in an entity’s business model.

Reclassifications triggered by a change in business model are expected to be highly very infrequent and to incur only when the activity is significant to the entity’s operations; they are applied prospectively from the reclassification date.

Debt modifications

An increase in the number of entities experiencing financial difficulty because of events associated with the Russia-Ukraine war may lead to a greater number of debt restructurings (e.g. to extend a maturity, reduce a coupon rate, or ease covenant terms). It may be the case that an entity’s debtors seek to renegotiate the terms of their arrangements with the entity. Where the entity grants such concessions and modifies the related contractual arrangements, the accounting impact of the modification must be assessed. Similarly, the entity may itself experience liquidity or solvency challenges and seek to renegotiate terms of its borrowings or other liabilities resulting in amendments to existing agreements (either amendments to the cash flows or related covenants).

In respect of financial liabilities, the entity must consider whether the modifications are substantial which typically involves qualitative factors as well as an assessment of whether the modifications result in a change in the net present value of the instrument’s cash flows of more than 10 per cent (the “10 per cent test”). When a modification is substantial the existing financial liability is derecognised and a new liability is recognised at fair value, resulting in a derecognition gain or loss. It is particularly important to note, however, that when the modification is not substantial and the debt is therefore not derecognised, the adjustment to the carrying amount arising from discounting the revised cash flows at the original effective interest rate will result in a modification gain or loss in profit or loss.

Although IFRS 9 includes limited guidance on accounting for modifications of financial assets, in particular the assessment of whether a modification results in derecognition, some entities have an accounting policy of applying the same 10 per cent test they use for financial liabilities to financial assets and accounting for a substantial modification as the extinguishment of the existing asset and the recognition of a new asset.

IFRS 9:5.5.12 provides specific guidance on how to apply the impairment requirements to scenarios when a modification of a financial asset does not lead to derecognition.

When intragroup funding arrangements are modified, consideration should be given to the identification of intergroup capital contributions or distributions. Entities should determine whether there has been impairment of a financial asset in advance of its modification. The difference between the carrying amount of the financial instrument derecognised and the fair value of the new financial instrument recognised may need to be allocated between a derecognition gain or loss and a capital contribution or distribution between parties under common control.

Changes in estimated cash flows

The Russia-Ukraine war may result in a change in expectations regarding the exercise of prepayment, extension or conversion features in debt agreements. When such features are accounted for as bifurcated embedded derivatives or, when the entire instrument is measured at fair value through profit or loss (FVTPL), changes in the likelihood of those features being exercised will be reflected in the fair valuation. When such features are accounted for as part of a host debt instrument that is measured at amortised cost, remeasurement adjustments recognised in profit or loss may still arise as the revised expected cash flows are discounted at the instrument’s original effective interest rate. When a conversion feature is classified as equity, changes in expectations regarding its exercise do not impact on the amount originally recorded in equity.

Hedge accounting

The Russia-Ukraine war could affect both the ability of entities to apply hedge accounting and the effectiveness of hedging relationships accounting.

When a transaction has been designated as the hedged item in a cash flow hedge relationship, the entity will need to consider whether the transaction is still a “highly probable forecasted transaction” and if not, whether it is still expected to occur. For example, an entity could change its intent to make purchases or sales or may no longer have the intent or ability to roll over debt given its financial difficulties or general economic difficulties associated with the war. Also, the ability of counterparties and customers to buy from, or lend to, the reporting entity may be adversely affected, which could limit the entity's ability to hedge transactions previously considered as highly probable. For instance, an entity's ability to hedge probable sales to customers or probable interest payments on a loan originated by a bank may be questionable if those counterparties might be unable to perform in the current economic environment.

If an entity determines that a forecasted transaction is no longer highly probable, but is still expected to occur, the entity must discontinue hedge accounting prospectively and defer the gain or loss on the hedging instrument that has been recognised in other comprehensive income accumulated in equity until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur the entity must immediately reclassify to profit or loss any accumulated gain or loss on the hedging instrument.

When the expected timing of a designated hedged transaction changes, an entity is required to reassess whether the hedged transaction identified in the entity's hedge documentation is still the same hedged transaction (i.e. assess whether the hedged transaction is still expected to occur).

A change in the timing of a hedged forecast transaction when its occurrence remains highly probable may also have an effect on profit or loss. Hedge ineffectiveness can exist because a difference arises in the amount and/or timing of the hedged item and the hedging instrument. It is common for entities to determine a 'hypothetical derivative' to reflect the timing and amount of the hedged item and use the fair valuation of this to compare with the hedging instrument to determine the amount of hedge ineffectiveness to be recognised in profit or loss. If the timing and/or amount of the hedged item changes in response to current economic conditions, entities should adjust the hypothetical derivative to ensure hedge ineffectiveness is appropriately recognised.

Finally, increases in credit risk may cause a hedge relationship to fail its hedge effectiveness assessment if credit risk dominates the value changes resulting from the economic relationship between the hedging instrument and the hedged item.

Contracts to buy/sell commodities

IAS 32 *Financial Instruments: Presentation*, IFRS 7 and IFRS 9 deal primarily with contracts that are financial items; however, they also capture some contracts to buy or sell non-financial items. Contracts to buy or sell non-financial items that can be settled net (either in cash or by exchanging financial instruments) are within the scope of IAS 32, IFRS 7 and IFRS 9 unless they were entered into, and continue to be held, for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements (i.e. are held for 'own use').

The significant disruption to supply and demand may result in net cash settlement of contracts to buy or sell commodities or other non-financial assets that were previously expected to be physically settled and were accounted for as 'own use' contracts (i.e. outside the scope of IFRS 9). The assessment of whether a non-financial contract is held for 'own use' is a continuous assessment and is not only performed at inception of the contract. Consequently, the expected net cash settlement of contracts to buy or sell non-financial items (e.g. commodities) will bring those contracts within the scope of IFRS 9 and result in classification of the contracts as financial assets or liabilities subject to the measurement requirements of that Standard. Under IFRS 9, commodity derivatives not designated in hedging relationships are accounted for at FVTPL.

When assessing whether contracts to buy or sell commodities are for own use, it will be necessary to identify the contract to which the assessment applies. Each contract must be evaluated in its entirety. For example, an entity may have a contract for 100 units, but its expected usage requirement is only 80 units. The entity intends to net settle the part of the contract it does not need in its normal course of business. Such partial net settlement can be achieved in different ways (e.g. by entering into an offsetting contract for 20 units, or by taking delivery of all 100 units and selling 20 immediately). The entire contract falls within the scope of IFRS 9 because the entire contract cannot be argued to be in accordance with the entity's expected usage requirements.

Net settlement of a non-financial contract would only cause other similar contracts to fail the own use requirements if it establishes a past practice of net settlement. It is a matter of judgement as to what is past practice of net settlement. An entity will need to consider its historical behaviour, the reasons for past net settlement, and the relative frequency. Depending on the specific circumstances, it may be argued that an occurrence of a net settlement in the past was the result of an isolated non-recurring event that could not have been reasonably anticipated.

Entities sometimes enter into transactions where cash is prepaid for the supply of non-financial items (e.g. for commodities such as oil). In certain circumstances, for the payer of the prepayment, this may result in the recognition of a non-financial asset because it expects to receive the non-financial item and it meets the own use requirements so is not in the scope of IFRS 9. Likewise, the receiver of the cash may recognise a non-financial liability because it expects to deliver the non-financial item and it meets the own use requirements so is not in the scope of IFRS 9. Expected cash settlement of such contracts would result in them being treated as a financial instrument in the scope of IFRS 9 and classified as a financial asset or financial liability.

Consolidation and Equity Method Accounting

The Russia-Ukraine war may give rise to specific transactions or events that could affect an entity's accounting conclusions and disclosures related to its interests in other entities (e.g. its conclusion that an interest in another entity should be consolidated). Such transactions or events may include the following:

- *Lack of currency exchangeability* — Applying IFRS 10 *Consolidated Financial Statements*, a subsidiary is not excluded from consolidation on the basis that there are severe long-term restrictions that impair its ability to transfer funds to the parent. Whilst a parent considers restrictions on the transfer of funds from the subsidiary to the parent when assessing its ability to control a subsidiary, in themselves, such restrictions do not preclude control.
- *Operating losses* — During the economic downturn associated with the war, an investee may incur substantial operating losses. If the investee/borrower defaults on covenants as a result of operating losses, a lender may obtain rights to participate in or make decisions of the borrower, which the entity should consider in determining whether consolidation remains appropriate.
- *The existence of government limitations affecting the power to direct the relevant activities of a subsidiary* — If, as a result of the war, government limitations change an entity's ability to exercise rights or governance provisions of an investee, the entity may need to consider whether it continues to control the investee. This is also relevant to the assessment of joint control and significant influence in the context of joint arrangements and associates, respectively.
- *Time lag* — IFRS 10 requires that for purposes of the consolidated financial statements, the reporting date of a subsidiary corresponds to the date of the consolidated financial statements, unless it is impracticable to do so. When this is the case, the parent should consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. IAS 28 *Investments in Associates* and Joint Ventures includes similar requirements in respect of the financial statements of an associate or joint venture that an investor or joint venturer uses when applying the equity method.

In the current circumstances, if there is a time lag between the reporting date of a subsidiary and the consolidated financial statements (or between the reporting date of an equity method investee and the investor) it may be more likely that there may be material intervening events arising from the war which will require adjustments to the financial statements of the subsidiary (or the equity method investee).

Further, when a subsidiary prepares financial statements for a different reporting period, it is also necessary to review the subsidiary's statement of financial position to ensure that items are still correctly classified as current or non-current at the end of the group's reporting period. For example, a breach in covenant that is determined to be a non-adjusting event in the financial statements of a subsidiary may require reclassification of the affected liabilities in the consolidated financial statements if these are prepared at a date after the date of the breach in covenant and if the lender has not waived its right to demand repayment for a period of at least 12 months from the date of the consolidated financial statements of the parent.

Foreign Currency Matters

Long-Term Intragroup Investments

Paragraph 32 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* provides an exception that allows gains and losses on certain intragroup foreign currency items of a long-term investment nature to be recognised in other comprehensive income instead of being recognised in profit or loss. For an item to qualify as a long-term investment, the entity must be able to assert that “settlement is neither planned nor likely to occur in the foreseeable future”. An entity that has characterised an intra-group item as part of its net investment in an investee may need to reassess whether that designation is still appropriate as a result of the Russia-Ukraine war. For example, an entity that plans to exit or has abandoned any country affected by the war may need to reassess whether certain intercompany loans that had previously been determined to be of a “long-term-investment nature” should continue to be accounted for as such if the loans could now be settled in the “foreseeable future” in connection with the exit events.

Highly Inflationary Economies

IAS 29 *Financial Reporting in Hyperinflationary Economies* does not establish an absolute rate at which hyperinflation is deemed to arise. Rather, it describes characteristics that may indicate that an economy is hyperinflationary, one of which is that the cumulative inflation rate over three years approaches or exceeds 100%.

Historically, when there have been significant trade disruptions as a result of political or economic events, inflation rapidly increased in affected countries. Therefore, countries such as Russia and Ukraine that had relatively low inflation levels before 2022 (the three-year cumulative inflation in Russia and Ukraine at the end of 2021 was approximately 18% and 20% respectively) may see large and rapid inflation spikes. If the situation persists, this may require entities to assess whether the economies of those countries have become highly inflationary economies.

Note that the war’s duration as well as its ultimate outcome could have a significant impact on whether countries that are not directly involved also see a spike in inflation.

Remeasurement of Foreign Currency Transactions

IAS 21 requires that foreign currency transactions be recorded on initial recognition applying the spot exchange rate between the functional currency and foreign currency. At each subsequent reporting date, foreign currency monetary items and non-monetary items that are measured at fair value in a foreign currency are translated using the closing rate and the exchange rate on the date of the fair value measurement, respectively.

IAS 21:26 indicates that when several exchange rates are available, the rate to be used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.

Before the Russia-Ukraine war, jurisdictions currently affected by the war generally published a single official exchange rate that was used for translation purposes. However, in other situations in which a war between countries has arisen that has affected those countries’ economies, it has been common for more than one exchange rate to develop or to be approved by governments. When there is both an official exchange rate and an unofficial exchange rate, and the unofficial exchange rate is used both widely and **legally** for the purposes of currency conversions, a parallel or dual exchange rate situation exists. In such circumstances, if it can be demonstrated reasonably that transactions have been or will be settled at the unofficial rate (including currency exchanges for dividend or profit repatriations), it is appropriate to use the unofficial rate for translation and remeasurement purposes.

Given the possibility of changes to the sanctions against Russia and Belarus and the legal interpretation of such sanctions, it may be unclear whether an entity could be legally precluded from accessing certain currencies, which may therefore affect the assessment of the functional currency of a foreign operation that may have historically operated in those currencies. As a result, an entity may need to reassess the functional currency for those foreign operations. Entities in this situation should keep in mind that the determination of functional currency should be based on the long-term expectations of how the foreign operation may operate. Thus, if the restrictions are temporary, a change in functional currency may not be appropriate.

Translation of Foreign Currency Financial Statements

When the results and financial position of a foreign operation are translated into a presentation currency for inclusion in the financial statements of a reporting entity, whether by consolidation or the equity method, assets and liabilities are translated using the closing rate at the reporting date and income and expenses are translated at the exchange rates at the dates of the transactions (or an appropriate average rate). IAS 21:8 defines the closing rate as “the spot exchange rate at the end of the reporting period”. The closing rate should be the rate the entity currently would pay or receive in the market. In case of economic turmoil, government may impose an exchange rate different from the spot market exchange rate in order to discourage capital from leaving the country (i.e. a dividend remittance rate that applies to all remittances of earnings or dividends distributed outside the country). In such circumstances, the dividend remittance rate would be appropriate rate to use for translation purposes because cash flows to the reporting entity can only occur at this rate, and the realisation of a net investment is dependent upon cash flows from that foreign entity. Unusual circumstances that may permit an entity to use the market exchange rate in translating a foreign subsidiary in the circumstances described above would include a history of obtaining the market exchange rate for such transactions, and the ability to source funds at the market exchange rate. Otherwise, the dividend remittance rate should be used.

Further, when events such as the Russia-Ukraine war have arisen in the past, entities often had difficulty using an official exchange rate to repatriate dividends. If more than one exchange rate exists, an entity must use judgement in determining the relevant dividend remittance rate. This determination should be based on individual facts and circumstances, and an entity should be prepared to support its conclusion. Such support may include, but is not limited to:

- Sufficient evidence that the entity's use of the unofficial market rate for dividend remittance purposes is legal.
- Sufficient evidence to support the entity's assertion that it will be able to obtain the requisite volume of qualifying securities in the future and therefore is able to use the unofficial market rate for dividend remittances.

Other considerations in the determination of the dividend remittance rate to use for foreign currency translation include, but are not limited to:

- The entity's intent and ability to use a particular rate for dividend remittances, including a retrospective assessment of its ability to use a particular rate.
- The positive or negative impact of the entity's industry on its ability to access different exchange rates.
- The volume of potential or anticipated dividend remittances based on an assessment of accumulated unremitted earnings and the positive or negative impact that such volume may have on the entity's ability to use a particular rate for dividend remittances.

Restructuring plans

As a result of the Russia-Ukraine war, entities may be considering or implementing restructuring plans such as the sale or closure of part of its businesses or the downsizing of operations. Plans such as these may require consideration of a number of issues, including whether:

- The entity has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. If, and only if, both of these criteria are met a restructuring provision should be recognised.
- Any part of the business is available for immediate sale in its present condition and completion of such a sale within one year is highly probable. If so, the assets and liabilities to be disposed of are classified as held for sale applying IFRS 5 and written down to their fair value less costs to sell if this is lower than their carrying amount.

See the **Employee Termination Benefits** section for further discussion of the accounting for involuntary termination benefits.

Revenue from Contracts with Customers

As a result of the Russia-Ukraine war, an entity may need to cancel its contracts with certain customers (e.g. because of the shutdown of its operations in, or its exit from, certain markets affected by the war) or may otherwise be precluded from entering into contracts with certain counterparties (e.g. counterparties subject to sanctions). Business disruptions associated with the war may also prevent an entity from entering into customer agreements through its normal business practices, which may present challenges related to its determination of whether it has enforceable rights and obligations.

In addition, because customers affected by the war may be experiencing financial difficulties or liquidity issues, an entity may need to establish procedures to properly assess the collectability of its arrangements with them and consider changes in estimates related to variable consideration (e.g. as a result of increased product returns, reduced usage of the entity's products or services, or decreased royalties). The entity may seek to help some of these customers by revising its agreements to reduce any purchase commitments; allowing customers to terminate agreements without penalty; or providing price concessions, discounts on the purchase of future goods or services, free goods or services, extended payment terms, or extensions of loyalty programs.

Further, because an entity with operations in areas affected by the war may also be experiencing financial difficulties and supply-chain disruptions, it may request up-front payments from its customers; delay the delivery of goods or services; pay penalties or refunds for failing to perform or meet service-level agreements or for terminating agreements; or incur unexpected costs to fulfil its performance obligations. Therefore, as a result of the changes in circumstances experienced by both an entity and its customers due to the war, an entity may need to consider the following when assessing revenue from contracts with customers:

- *Contract termination* — An entity may terminate its contract with a customer. For example, it may be unable to sell its goods or services as a result of sanctions or because of a shutdown of its operations. The entity may therefore need to consider whether (1) any consideration due is collectible; (2) termination penalties or refund liabilities are triggered (after carefully assessing any force majeure clauses; see the **Variable consideration** discussion below); (3) previously recognised revenue should be reversed, or (4) contract-related assets are impaired or should otherwise be written off.
- *Contract modification* — An entity may modify its enforceable rights or obligations under a contract with a customer. For example, the entity may grant a price concession to a customer, in which case the entity should consider whether the concession is due to the resolution of variability that existed at contract inception (i.e. a change in transaction price associated with variable consideration) or a modification that changes the parties' rights and obligations.

A price concession provided solely as a result of the war most likely represents a modification that changes the parties' rights and obligations. However, if a customer has a valid expectation that it will be granted a price concession (e.g. because of past business practices or statements made by an entity), the entity should consider whether the expectation of such a concession would give rise to variable consideration that should be estimated and accounted for as a change in transaction price applying IFRS 15:87-90. In addition, if all performance obligations have been satisfied, any price concession would be treated as a change in transaction price.

An entity may also modify the scope of a contract (e.g. by reducing minimum purchase commitments). If the modification adds only goods or services to the contract for an incremental fee, the entity should first evaluate whether to account for it as a separate contract under IFRS 15:20. Such a modification is a separate contract if the added goods or services are distinct and priced at their stand-alone selling prices, which may be adjusted to reflect the circumstances of the contract (e.g. a discount due to the lack of additional selling costs). In making this determination, an entity should consider whether the stand-alone selling prices of its goods or services for certain classes of customers have changed in light of the current environment. Any changes in the stand-alone selling prices of goods or services do not affect prior contracts unless those contracts have been modified.

If the only change to a contract is a reduction of the transaction price, or if the modification is not otherwise a separate contract, the entity should evaluate the guidance in IFRS 15:21 to determine whether to account for the modification as a termination of the old contract and the creation of a new contract because the remaining goods or services are distinct (which would result in prospective treatment), a cumulative catch-up adjustment to the original contract because the remaining goods or services are not distinct, or a combination of these methods.

- *Contract enforceability* — IFRS 15:9 provides criteria that must be met before an entity may account for a contract with a customer, including the approval of the parties to the contract and a commitment to perform their respective obligations.

If the criteria are not met, no revenue can be recognised until one of the following occurs:

- the criteria in IFRS 15:9 are met.
- no obligations to transfer goods or services remain and substantially all the consideration promised by the customer has been received and is non-refundable.
- the contract has been terminated and the consideration received is non-refundable.
- the entity receives non-refundable consideration, has provided the goods or services related to such consideration, has stopped providing goods or services, and has no obligation to transfer additional goods or services.

In certain circumstances, the parties may not be able to approve a contract under an entity's normal and customary business practices. For example, the entity may not be able to obtain the signatures it usually obtains when entering into a contract because personnel from the entity or customer are unavailable or otherwise unable to provide signatures. Therefore, it is important to carefully evaluate whether the approval process creates a contract with enforceable rights and obligations between the entity and its customer. In making this determination, an entity may consider consulting with its legal counsel. If enforceable rights and obligations do not exist, revenue cannot be recognised until one of the criteria discussed in the previous paragraph is met.

- *Collectability* — A contract with a customer under IFRS 15:9(e) does not exist unless “it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred.” That consideration should not include expected price concessions (including implied concessions), which are evaluated as variable consideration, even if those concessions are provided as a result of credit risk. In addition, while the collectability analysis is performed at the individual contract level, an entity may look to a portfolio of similar contracts (e.g. by risk profile, size of customer, industry, geography) in its assessment. For example, if it is probable that an entity will collect substantially all the consideration for 90 percent of a portfolio of similar contracts, the entity may conclude that it has met the collectability threshold for all the contracts in the portfolio. However, an entity should not ignore evidence related to specific contracts that do not meet the collectability criterion; rather, it should evaluate those specific contracts separately.

Further, in determining whether contracts are similar under a portfolio approach, an entity could consider disaggregating its contracts at a more granular level than it has in the past. For example, while historically the entity may not have disaggregated its contracts by geography, it may reconsider its disaggregation given that some areas may be more heavily affected by the war than others. An entity should not reassess whether a contract meets the criteria in IFRS 15:9 after contract inception unless there has been a significant change in facts and circumstances. If the war results in a significant deterioration of a customer's or portfolio of customers' ability to pay, the entity should reassess collectability. For example, if a customer experiences liquidity issues or a downgrade in its credit rating, the entity would need to carefully evaluate whether those circumstances are short-term in nature or result in a determination that it is no longer probable that the customer has the ability to pay. Because of the significant uncertainty associated with the effects of the war, it is important for the entity to document the judgements it made and the data or factors it considered. If the entity concludes that collectability is not probable, a customer contract no longer exists and the entity can therefore no longer prospectively recognise revenue, receivables, or contract assets.

If collectability becomes probable in a subsequent period and the other criteria in IFRS 15:9 are met, the entity can begin to recognise revenue again. See the **Contract enforceability** discussion above, which addresses the criteria that need to be met before an entity can recognise revenue when an enforceable contract does not exist.

- *Variable consideration* — Variable consideration includes, among other things, rebates, discounts, refunds (including for product returns), and price concessions. Under IFRS 15:56, an entity should only include amounts of variable consideration in the transaction price if it is highly probable that doing so would not result in a significant reversal of cumulative revenue recognised when the uncertainty related to the variable consideration is resolved. Further, an entity must update its estimated transaction price in each reporting period.

The entity may need to consider any expected changes in its ability to perform and customer behaviour as a result of the war. For example, an entity may need to consider updating its estimated transaction price if it expects an increase in product returns, decreased usage of its goods or services or decreased royalties, increased invocation of retrospective price protection clauses, changes in redemption rates of coupons or volume rebates, or to potentially pay contractual penalties or liquidated damages associated with its inability to perform (e.g. the inability to deliver goods or services on a timely basis or to meet service-level agreements). In certain circumstances, an entity's estimate of penalties or liquidated damages could be limited by force majeure clauses. If such a clause exists, the entity should carefully consider whether, on the basis of its facts and circumstance, it can or will legally invoke it. Further, an entity may need to reconsider whether it will be able to achieve milestone payments, performance bonuses, trailing commissions based on renewals, or other performance-related fees.

If there is a reduction in the estimated transaction price, a change in estimate may result in the reversal of revenue for amounts previously recognised as variable consideration (e.g. as a result of an increase in liability for returns).

An entity may also need to allocate a reduction in the estimated transaction price to all performance obligations in a contract unless the change in estimated variable consideration is related to only one or more (but not all) performance obligations (or distinct goods or services) in accordance with IFRS 15:85, 86 and 89 (e.g. penalties for late deliveries may be associated with only some of the goods or services in a contract). In addition, an entity may not need to recognise a reduction in the estimated transaction price when applying the variable consideration constraint if the reduction is too small to result in a significant reversal of cumulative revenue recognised. Because of the significant uncertainty associated with the war's effects on an entity and its customers, it may be challenging for the entity to make appropriate estimates of variable consideration. Therefore, in a manner similar to its assessment of contract collectability, an entity must document the judgement it applied and the data or factors it considered.

Further, an entity may have a right to receive non-cash consideration (e.g. shares) from a customer that has declined in value. If an entity's accounting policy is to measure non-cash consideration at its estimated fair value at contract inception, any changes in the fair value of non-cash consideration after the contract inception that are solely due to a decrease in value are not variable consideration and would not be reflected in the transaction price. Rather, the non-cash consideration should be accounted for under the applicable IFRS Accounting Standard.

- *Material right* — To mitigate declines in sales or to help certain customers affected by the war, an entity may offer sales incentives, including discounts on future goods or services. If it does so, the entity should evaluate whether a sales incentive on the purchase of future goods or services represents (1) a material right in accordance with IFRS 15:B40 that is associated with a current revenue contract (whether explicit or implicit because there is a reasonable expectation on the part of a customer that it will receive a sales incentive at contract inception) or (2) a discount that is recognised in the future upon redemption (i.e. when revenue is recognised for the related goods or services) in a manner consistent with IFRS 15:72.

In addition, for new or modified contracts, an entity may need to update its estimate of the stand-alone selling price of a material right (e.g. because the entity extended the periods for use or provided additional incentives to a customer) or to reassess its breakage assumptions (e.g. because of extensions or changes in expected usage patterns). For example, if an entity modifies its loyalty program by extending its customers' ability to use points, the entity may be required to reassess the breakage assumptions it uses.

- *Significant financing component* — To assist customers that are experiencing liquidity issues related to purchasing goods and services, an entity may provide extended payment terms. Similarly, to fulfil its promises related to goods or services, an entity with liquidity issues may require its customers to make up-front payments. The entity should also evaluate whether a significant financing component exists in accordance with IFRS 15:60-65. If the entity modifies payment terms for an existing customer contract, it should consider the same guidance on price concessions as that discussed above in the **Contract modification** and **Variable consideration** discussions. In addition, while the extension of payment terms does not by itself indicate that a contract is not collectible, an entity may need to consider its procedures for assessing collectability (see the **Collectability** discussion above).
- *Implied performance obligations* — An entity may help customers affected by the war by giving them free goods or services that are not explicitly promised in the contract. In a manner consistent with IFRS 15:24, an entity should determine whether its contracts with customers contain promises to provide goods or services that are implied by its customary business practices or published policies or by specific statements that create a reasonable expectation of the customer that the entity will transfer those goods or services.

There may also be instances in which an entity provides free goods or services to a customer that are not part of a prior contract with that customer (i.e. at the time the prior contract was entered into, there were no explicit or implicit obligations to provide those goods or services). An entity must carefully evaluate whether the additional promised goods or services are a modification of a pre-existing customer contract or an incurred cost that is separate from any pre-existing contracts. In these situations, it may be helpful for an entity to consider the contract combination guidance in IFRS 15:17, which specifies that contracts with the same customer (or a related party of the customer) entered into at or near the same time are combined if (1) they “are negotiated as a package with a single commercial objective,” (2) “consideration to be paid in one contract depends on the price or performance of the other contract,” or (3) there are goods or services in one contract that would be a single performance obligation when combined with the goods or services in another contract. In addition, an entity should consider the substance of the arrangement to provide the free goods or services and whether accounting for the arrangement as a separate transaction or as a contract modification would faithfully depict the recognition of revenue related to the goods or services promised to the customer in a pre-existing contract.

In some cases, free goods or services provided to a customer solely as a result of the war (that are not part of another newly entered contract with that customer) may not be considered a contract modification, particularly if they are broad based and not negotiated with the customer. However, an entity may need to determine whether it has developed a practice that creates an implied promise in future contracts.

- *Recognition of revenue* — Because of the war an entity may need to reconsider the timing of revenue recognition if it is unable to satisfy its performance obligations on a timely basis. Revenue cannot be recognised until control of the goods or services transfers to the customer (i.e. when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods or services). For example, as a result of operating facility shutdowns, an entity may be unable to fulfil its performance obligations and therefore be unable to recognise revenue until its ability to perform is restored. In addition, the entity must determine whether any contractual penalties would affect the transaction price. In some cases, the entity may be completely unable to satisfy its performance obligation, which could result in (1) the termination of the contract, (2) a reversal of any revenue previously recognised for a performance obligation that was not fully satisfied, and (3) the recognition of a refund liability (or additional liability due to a payment of penalties) instead of deferred revenue.

Sometimes, delays in the transfer of goods or services may be caused by the customer or other external factors. For example, a customer may not be able to obtain physical possession of a product because of shipping delays or because it cannot receive the product (e.g. warehouse personnel may be unavailable, shipping routes or ports may be closed, facilities may be shut down). In such cases, an entity should carefully consider when control of the product transfers (e.g. before or after shipment). Further, if a customer is unable to take physical possession of the product, it may request that the entity retain the product on a bill-and-hold basis. In this circumstance, the entity would need to consider the bill-and-hold guidance in IFRS 15:B79-B82.

Because of supply-chain disruptions, an entity may also incur unexpected costs associated with fulfilling a performance obligation that is satisfied over time. If it uses a cost-based input method to measure its progress toward complete satisfaction of the performance obligation, the entity should carefully consider whether the incremental costs (1) affect its measure of progress or (2) do not depict its performance in transferring control of the goods or services (e.g. because the costs are due to unexpected amounts of wasted materials, labour, or other resources). Consequently, the entity may also need to reevaluate the expected costs to complete its contracts and consider future material, labour, and the allocation of overhead rates.

- *Warranty provisions* — As a result of supply-chain constraints, an entity that provides assurance-type warranties may incur increased costs to fulfil those warranties. The entity may need to reassess whether its warranty provisions should be increased under IAS 37.
- *Loss-making contracts* — If a loss is expected on a revenue contract, the entity will need to consider if whether an onerous contract provision should be recognised in accordance with IAS 37. For example, an entity may need to consider whether a reduction in revenue due to price concessions or an increase in its estimated costs due to supply-chain disruptions would result in a contract loss that must be recognised immediately applying IAS 37.

- *Disclosure Considerations* — Many of the circumstances described above could affect an entity's disclosures. These include (but are not limited to) disclosures of significant contract terminations or modifications, significant changes in a contract asset due to an impairment, significant payment terms (including any significant financing component), and an entity's expected timing of revenue recognition for its remaining performance obligations (which would exclude terminated contracts or transactions that do not meet the criteria in IFRS 15:9 to be accounted for as a customer contract). Given the level of uncertainty caused by the Russia-Ukraine war, an entity may find it challenging to make certain critical estimates. The entity may therefore conclude that it is appropriate to disclose any significant judgements it made in accounting for its revenue contracts (e.g. assessing collectability; estimating and constraining variable consideration; measuring obligations for returns, refunds, and other similar obligations; measuring progress toward completion of a performance obligation recognised over time; and determining the stand-alone selling price and breakage assumptions for material rights).

Onerous contracts provisions

At the inception of an executory contract, both parties to the contract generally expect to receive benefits that are equal to or greater than the costs to be incurred under the contract. Because of government sanctions and other effects of the war, the unavoidable costs of meeting the obligations under the contract may exceed the benefits expected to be received, resulting in an onerous contract. IAS 37 requires recognition of a provision in respect of onerous contracts.

For example, an onerous contract provision may be required as a result of increased costs of fulfilling a customer contract due, for example, to supply chain issues or the lack of availability of personnel to provide services resulting in the use of higher-priced outsourced labour cost.

The provision recognised for an onerous contract should reflect the least net cost of exiting from the contract, i.e. the lower of:

- The cost of fulfilling the contract; and
- Any compensation or penalties arising from failure to fulfil the contract.

When assets dedicated to a contract are involved, however, a separate provision is recognised only after any impairment loss has been recognised in respect of those assets.

In determining the least net cost of exiting the contract, an entity should pay attention to terms of the contract that allow the entity to terminate the contract without incurring penalties in certain extraordinary circumstances ("force majeure"). If a contract includes such a force majeure provision that can be enacted by the events such as the Russia-Ukraine war, it may be that the contract is not onerous because the entity can avoid any further obligations.

Provisions should not be recognised in respect of:

- Penalties for failure to respect the terms of a revenue contract, such as a late delivery penalty that is incurred if goods are not supplied by a specified delivery date. Such penalties are accounted for under IFRS 15, because they are a form of variable consideration that affects revenue, so they are not within the scope of IAS 37. Even when a penalty has already been triggered, any associated liability would be accounted for under IFRS 15, and not as a provision under IAS 37 (see **Variable consideration** in the **Revenue from Contracts with Customers** section). However, if the contract has, as a whole, become onerous as a result of the penalty clause, a provision should be recognised for any net loss expected to result.
- Leases (other than short-term leases and leases of low value assets accounted for in accordance with paragraph 6 of IFRS 16 Leases) that become onerous after their commencement date: these leases are dealt with instead by applying the general requirements of IFRS 16. For example, an entity will determine and recognise any impairment of right-of-use assets applying IAS 36. However, an onerous contract provision may need to be recognised for non-lease components that are accounted for separately.
- Future operating losses: As a result of the Russia-Ukraine war, an entity may forecast operating losses for a certain period. Such losses may result from declines in customer demand or disruptions in the supply chain. IAS 37 sets out two prohibitions on the recognition of provisions for future operating losses:
 - A general prohibition, on the grounds that there is no present obligation and thus no liability (albeit the expectation of future operating losses may indicate a need to test whether assets have been impaired).
 - A specific prohibition in respect of future operating losses up to the date of a restructuring (again on grounds that there is no present obligation unless the losses relate to an onerous contract).

Insurance recoveries

Entities that incur losses stemming from the Russia-Ukraine war may be entitled to insurance recoveries. For example, an entity's insurance policies may provide coverage for losses associated with assets seized by government or destroyed in the affected regions, asset impairments for factories that are closed down, and penalties for contract terminations. Furthermore, some entities may have business interruption insurance that provides coverage for lost profits attributable to certain of those events.

Insured losses

The basis underlying the recognition of a reimbursement is that any asset arising is separate from the related obligation. Consistent with the requirements of IAS 37 on contingent assets, such a reimbursement should be recognised only when it is virtually certain that it will be received if the entity settles the obligation.

Note that it is the existence of the reimbursement asset that must be virtually certain, rather than its amount. An entity may be virtually certain that it has insurance to cover a particular provision, but it may not be certain of the precise amount that would be received from the insurer. Provided that the range of possible recoveries is such that the entity can arrive at a reliable estimate, it will be able to recognise this as an asset, even though the amount ultimately received may be different.

However, a conclusion that a potential insurance recovery is virtually certain involves significant judgement and should be based on all relevant facts and circumstances.

A conclusion that potential insurance recovery is virtually certain will involve significant judgement and should be based on all relevant facts and circumstances. In determining whether the threshold for recognition of a reimbursement asset is met, an entity will most likely, among other factors, need to understand the solvency of the insurance carrier and have had enough dialogue and historical experience with the insurer related to the type of claim in question to assess the likelihood of payment. Other potential challenges an entity may encounter when evaluating whether a loss is considered recoverable through insurance include, but are not limited to, (1) the need to consider whether losses stemming from the Russia-Ukraine war are specifically excluded as a covered event; (2) the extent of coverage and limits, including multiple layers of insurance from different carriers; and (3) the extent, if any, to which the insurance carrier disputes coverage. Consultation with legal counsel may also be necessary.

When a reimbursement asset is recognised, its presentation is as follows:

- In the statement of financial position, a separate asset is recognised (which must not exceed the amount of the provision).
- In profit or loss, a net amount may be presented, being the anticipated cost of the obligation less the reimbursement.

Business interruption insurance

Entities operating in regions affected by the Russia-Ukraine war may have been forced to temporarily suspend operations for reasons ranging from supply chain disruption to, on a broader scale, sanctions against Russia and Belarus that limit or preclude trade. Business interruption insurance differs from other types of insurance coverage in that it is designed to protect the prospective earnings or profits of the insured entity. Such insurance also generally provides for reimbursement of certain costs and losses incurred during the interruption period.

Those costs may be analogous to losses from property damage and, accordingly, the reimbursement is recognised only when it is virtually certain that it will be received. This may be difficult to establish until the insurer has accepted the claim. Entities are encouraged to consult with their advisers in connection with their evaluation of whether a receivable may be recognised for expected insurance recoveries associated with fixed costs incurred during an interruption period.

Employee Suspension and Termination Benefits

In addition to disrupting operations, supply chains and causing damage to facilities and equipment, the Russia-Ukraine war has resulted in the imposition of various sanctions on Russia and Belarus that could adversely affect entities doing business within (or with entities in) the affected region. Examples of such impacts include restrictions on trading, shortages of critical parts, and significant increases in the cost of materials. As a result, entities may need to reduce their workforce through temporary employee furloughs, closure facilities closures, or halting sales temporarily or permanently. Consequently, entities may need to reallocate employees to other locations or permanently terminate or temporarily furlough them. They may also be forced to consider subsequent restructuring actions as information becomes available on the long-term effects of the war on the entities' operations.

In addition to or conjunction with these actions, certain employers may offer benefits to their employees. In determining how to account for these measures, entities must start by identifying the nature and characteristics of each action that is being considered, or committed to, because it may affect the timing of the recognition of the benefits provided to employees.

Salary Continuation, Temporary Suspension of Employment

Some entities may offer to continue to compensate employees even though they are not actively working during the suspension period, keeping the right to call employees back to work as necessary and preventing employees from taking up work elsewhere during the suspension period.

When an entity uses a temporary suspension arrangement of this nature in order to reduce its employment costs during periods of reduced activity, the costs of the temporary suspension should be classified as a short-term benefit similar to a paid absence (e.g. holiday or leave pay). Short-term paid absences only give rise to a liability when they are accumulating, as discussed in paragraphs 13 and 18 of IAS 19 *Employee Benefits*. This is not the case in the circumstances described, because the employees only have a right to receive payments as suspension occurs and for as long as suspension lasts. The entity has the discretion to ask some or all of its employees to return to work when the conditions will permit and revert to normal working arrangements and remuneration. Therefore, in these circumstances, the costs of suspension should be recognised over the suspension period and should not be accrued at the outset. Note that, in the circumstances described, the payments should not be classified as termination benefits; they are paid in exchange for suspension of the employees' employment rather than in exchange for termination of the employees' employment (as would be required under the definition of termination benefits in IAS 19:8).

Termination Benefits

If benefits are provided by the entity as a result of termination of employment, the entity should recognise its obligation at the earlier of either the date when it can no longer withdraw the offer of those benefits or the date when it recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of those termination benefits. IAS 19 provides further guidance to establish the date when the entity can no longer withdraw the offer. In particular, IAS 19:167 specifies that when the termination benefits are payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- The plan establishes the termination benefits that employees will receive in sufficient detail such that employees can determine the type and amount of benefits they will receive when their employment is terminated.

The measurement requirements for termination benefits are determined in accordance with their nature. Accordingly, as indicated in IAS 19:169, an entity should measure termination benefits as follows:

- If the termination benefits are an enhancement to post-employment benefits, IAS 19's requirements for post-employment benefits should be applied; otherwise
- If the termination benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefit is recognised, IAS 19's requirements for short-term employee benefits should be applied; and
- If the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, IAS 19's requirements for other long-term employee benefits should be applied.

Income Taxes

Entities should consider how profitability, liquidity, and impairment concerns that could stem from the Russia-Ukraine war might also influence income tax accounting in affected jurisdictions. For example, a reduction in a jurisdiction's current-period income or the incurrence of losses, coupled with a reduction in forecasted income or a forecast of future losses, could result in a reassessment of whether it is probable that some or all of an entity's deferred tax assets can be recovered. If declining earnings or impairments generate losses, entities will need to consider whether there is sufficient income within the carryback and carryforward period available under tax law of the appropriate character (e.g. capital or operating) to realise the related deferred tax asset, fully or partially, in that jurisdiction.

As permitted by IAS 12 *Income Taxes*, an entity may have not recognised deferred tax liabilities for taxable temporary differences associated with subsidiaries, branches and associates, and interests in joint arrangements, because it controls the timing of the reversal of the temporary difference and it has been probable until now that the temporary difference will not reverse in the foreseeable future. Conversely, it may have recognised deferred tax assets for deductible temporary differences associated with such investments because it was probable that the temporary difference would reverse in the foreseeable future (and it was probable that the deferred tax asset could be recovered). If an entity or its subsidiaries have liquidity issues or other challenges resulting from the current macroeconomic environment such that there is a change in intent with respect to the repatriation of undistributed earnings in an investee, it may be appropriate to reconsider these conclusions.

Adjustments to forecasted income (like those assumed for other impairment analyses) will also need to be factored into an entity's annual effective tax rate for interim reporting purposes. As a result of the war, losses may be incurred in one or more jurisdictions for which no benefit can be recognised. Such jurisdiction(s) may therefore need to be removed from the entity's annual effective tax rate and considered separately. In other more extreme instances, an overall reduction in an entity's forecasted income as a result of changing macroeconomic conditions might make the entity's annual effective tax rate highly sensitive to changes in estimated ordinary income for the year (for example, if an entity's non-taxable or non-deductible items are more significant and are not proportional to overall income), rendering any estimate of an entity's annual effective tax rate misleading. In such cases, entities should consider whether the non-deductible and non-taxable items should be considered as a separate income or expense stream when determining the income tax charge or included in the determination of interim income tax on a discrete basis.

Going Concern Disclosures

The Russia-Ukraine war may significantly disrupt the operations of businesses that have material operations in the regions affected by it or that hold material investments or lending activities with entities in such regions. Those entities will need to assess whether any disruptions may be prolonged and result in diminished demand for products or services or significant liquidity shortfalls (or both) that, among other things, cause management to assess whether the entity may be able to continue as a going concern for at least, but not limited to, 12 months from the reporting date.

In assessing whether the going concern basis is appropriate, UK companies should consider a period of at least 12 months from the date the financial statements are authorised for issue.

Financial statements are prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading or has no realistic alternative but to do so. When making its assessment, if management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity must disclose those uncertainties.

An entity's current facts and circumstances may challenge the going concern basis of preparation. Assessing whether an entity is a "going concern" typically requires the following factors to be considered:

- Whether the forecast performance would result in an adequate level of headroom over the entity's available borrowing facilities and compliance with relevant loan covenants; and
- The availability of sufficient committed borrowing facilities for the foreseeable future and whether there are indicators that the lending counterparty will be unable to provide this funding.

The assessment as to whether the going concern basis is appropriate takes into account events after the end of the reporting period.

In making this assessment, management will need to take into account all information available up to the date of authorisation of the financial statements (in certain jurisdictions, local regulations may extend this period). When management is aware of material uncertainties that cast a significant doubt on the entity's ability to continue as a going concern, IAS 1:25 requires the entity to disclose those material uncertainties in the financial statements. The disclosure should be specific to the entity's own situation, for example explaining how and when the uncertainty may crystallise and its impact on the entity's resources, operations, liquidity and solvency. The assumptions used in determining whether an entity is a going concern should be consistent with the information used in other areas of the financial statements (e.g. liquidity risk management disclosure, impairment of non-financial assets, recognition of deferred tax assets, hedge accounting).

There may be cases when an entity concludes, after having considered all relevant information, including the feasibility and effectiveness of planned mitigation, that there are no material uncertainties that cast substantial doubt about its ability to continue as a going concern requiring disclosure under IAS 1:25.

However, reaching that conclusion will often involve significant judgements around the range of outcomes to consider and the probabilities assigned to those outcomes. Furthermore, the range of possible outcomes and their impact on the entity's future operations may be broad, meaning that assigning more or less weight to possible outcomes could make a difference in the entity's conclusion regarding the existence of material uncertainties.

IAS 1:122 requires disclosure of the judgements made that have the most significant impact on the amounts recognised in the financial statements. IAS 1:122 also requires disclosure of the significant judgements which the entity has made to reach the conclusion that no disclosure of material uncertainties is required under IAS 1:25, especially when other reasonable judgements may have resulted in a different conclusion. This is consistent with the conclusion reached by the IFRS Interpretations Committee in the July 2014 IFRIC Update that disclosure of significant judgements is required when an entity concludes there is no material uncertainty regarding its ability to continue as a going concern but reaching this conclusion involved significant judgement. Such disclosure is important to provide users of the financial statements with sufficient information to understand the pressures on liquidity, viability and solvency.

Even if an entity concludes that there is no material uncertainty regarding its ability to continue as a going concern, information that may be relevant to users of the financial statements includes:

- the different going concern scenarios that have been considered.
- inputs that have been subject to stress tests and an explanation of how these stress tests have affected the going concern conclusions.
- any mitigating actions management is able to take to improve liquidity.
- any post balance sheet changes to liquidity, specifically the arrangement of new lending facilities, the extension of existing facilities or the renegotiation of debt instruments or facilities or waiving of loan covenants.
- the level of drawn and undrawn finance facilities in place.
- the covenants in place and whether they are expected to be breached.
- the need for structural changes in order for the entity to continue to operate as a going concern.

Entities should also consider any additional expectations relating to disclosure of these matters that have been articulated by regulators in their jurisdictions.

Events after the End of the Reporting Period

Given the geopolitical uncertainty resulting from the Russia-Ukraine war and the likelihood that changes may occur rapidly or unexpectedly, entities should carefully evaluate information that becomes available after the end of the reporting period but before the date of authorisation of the financial statements.

The amounts in the financial statements must be adjusted to reflect events after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period. Events that are indicative of conditions that arose after the reporting period are non-adjusting events. They are not reflected in the recognition or measurement of items in the financial statements but require disclosure when material.

Often the "events" are entity-specific; and associated with a specific account that permits a more precise analysis. However, sometimes the "events" are macroeconomic in nature and have a pervasive impact on many estimates in a set of financial statements which may make it difficult to ascertain whether such conditions "existed" at the reporting date.

With respect of reporting periods ending on or before 31 January 2022 (i.e. before the 24 February 2022), entities should address the potential impact of the economic and geopolitical risks arising from the war as non-adjusting events. However, depending on the war's duration and evolution, for subsequent reporting periods, the effects of the war may affect the recognition and measurement of assets and liabilities in the financial statements. This will be highly dependent on the reporting date and the specific circumstances of the entity's operations.

If non-adjusting events are material, an entity is required to disclose the nature of the event and an estimate of its financial effect. The estimate does not need to be precise. It is preferable to provide a range of estimated effects as an indication of impact to not providing any quantitative information at all. However, where quantitative effect cannot be reasonably estimated, qualitative description should be provided, along with a statement that it is not possible to estimate the effect.

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