Brussels, 26 March 2020
EBF_040703

Mr Hans HOOGERVORST

Chairman
International Accounting Standards Board
Email:

Subject: Accounting implications of COVID-19

Dear Mr Hoogervorst, dear Hans,

In the course of the global coronavirus pandemic, the economic consequences are increasingly coming to the fore. In many countries, public life and economic activity have come to a standstill, companies are closed temporarily for business on orders from the governments while production and supply chains are coming under stress. Amid the coronavirus-related economic shock to the global economy, public authorities have responded with numerous diverse and far-reaching initiatives that are either being planned or already in force.

It is already foreseeable that there will be significant disruptions in the operational cash flows of companies. The liquidity lines provided by banks will be fully implemented, arrears will increase significantly (if measures such extension of limits and therms are not applied) and covenants in the loan agreements may be breached.

In the European Banking Federation, we do believe that this is not a financial crisis but a temporal humanitarian crisis that if properly tackled by authorities, regulators and supervisors would not turn into a financial crisis.

You may have noticed that ESMA issued yesterday, 25 March 2020, a strong statement that provided some guidance as to how staging accounting rules should be applied and also the implications on the scenarios relating to COVID-19 crisis. You can find ESMA statement attached to this letter.

We strongly believe that ESMA's view is consistent and within the limits of IFRS 9 and provide some support to financial statement preparers, users and auditors.

Accordingly, we strongly advocate that the IASB takes a similar statement where the application of extraordinary measures or other type of measures (such as government guarantees, private moratorium measures, etc) that are provided to borrowers by lenders, "*these measures should be analysed taking into account all the facts and circumstances, in order to distinguish, for example, whether the credit risk on the financial instrument has significantly increased or whether the borrower is only experiencing a tamproray liquidity constraint and there has not been a significant increase in credit risk*".

Such a statement would provide a very necessary comfort to the financial statement preparers that we represent.

A similar statement was announced by the FASB that confirms that *"short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant."*

We sincerely hope the IASB will take consideration of our request and we stay at your disposal for any clarification or additional information you may need for your analysis and due process.

Yours sincerely,

Wim MIJS
Chief Executive Officer