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COVID-19: clarifications on the accounting implications for the calculation of expected credit losses

The Autorité des Marchés Financiers, in coordination with the Autorité des Normes Comptables (ANC), draws the attention of financial institutions and their statutory auditors to the communications of the European Securities and Markets Authority (ESMA), European Banking Authority (EBA) and International Accounting Standards Board (IASB).

On 25 March, ESMA issued a statement on the accounting implications of the Coronavirus epidemic for the calculation of expected credit losses in accordance with the IFRS 9 standard. At the same time, the EBA published a statement on the application of the prudential framework regarding default, forbearance and IFRS 9 in light of the measures taken to support businesses. Finally, the IASB also issued a statement on 27 March on accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current exceptional circumstances.

These statements stress the importance of judgement in applying the principles of IFRS 9 and therefore of flexibility when classifying and assessing the credit risk of financial instruments to ensure that the financial statements faithfully reflect the exceptional circumstances of the COVID-19 pandemic and the legislative and regulatory measures implemented to support economies in these circumstances.

In France, the general measures that have been implemented, including payment holidays and moratoria or the granting of additional loans, do not automatically constitute an

indicator of a significant increase in the credit risk of the relevant financial assets as such. For instance, an instrument classified in bucket 1 before the pandemic occurred and which is concerned by these exceptional measures, should be kept in bucket 1 as long as the measures are a response to a temporary liquidity constraint and no other factor or information has arisen to indicate a significant increase in credit risk over the lifetime of the instrument. The same types of analysis may be performed for instruments classified in bucket 2. In this context, issuers should assess in particular the extent to which the specific circumstances and relief measures taken by the public authorities constitute justification for rebutting the presumption of a significant increase in credit risk in the case of delays in payment.

In addition, in the forward-looking macro-economic data used to determine the longer-term estimates of expected credit losses, French companies should take into account the positive effects of the relief measures granted by the public authorities. Given the current uncertainties surrounding COVID-19, companies may give a greater weight to long-term stable outlook when calculating their expected credit losses.

Finally, the guarantees of certain exposures granted by the public authorities in the particular circumstances of COVID-19 will be generally considered in France as credit enhancements that are an integral part of the instruments and will be taken into account when assessing the expected credit losses.

Finally, French companies should make sure that they disclose the information that is necessary to understand the exposures and impacts relating to COVID-19 in their next financial statements.

Read more

ESMA - Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9

EBA - Statement on the application of the prudential framework regarding default, forbearance and IFRS 9 in light of Covid-19 measures


IASB - IFRS 9 and Covid-19, Accounting for expected credit losses applying IFRS 9 financial instruments in the light of current uncertainty resulting from the Covid-19 pandemic

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