

AUTHORITIES RECOMMEND FLEXIBILITY IN ACCOUNTING STANDARDS AMID COVID-19 CRISIS

The FSC and the FSS issued a guidance on April 10 recommending companies and auditors against a mechanical application of IFRS 9 standards for determining their expected credit losses (ECLs) during the COVID-19 crisis.

As companies and auditors are preparing their quarterly reports and audit reports for the first quarter, there have been concerns over the looming uncertainty about how to determine the amount of ECLs due to the COVID-19 pandemic.

In this regard, both companies and auditors are highly advised to consider the unprecedented financial and economic relief measures taken by the government in a comprehensive way when determining ECLs. Ordinarily, the government's market support measures are expected to lower the risk of a default on a financial instrument.

With regard to the impairment of financial instruments, IFRS 9 "requires that lifetime ECLs be recognized when there is a significant increase in credit risk (SICR) on a financial instrument" and "requires the application of judgement and both requires and allows entities to adjust their approach to determining ECLs in different circumstances."

The International Accounting Standards Board (IASB) has recently issued a statement in this regard on March 27, recommending entities to adopt a more flexible approach when recognizing the impairment of financial instruments due to high levels of uncertainty amid the COVID-19 crisis.

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