



# COVID 19 - POTENTIAL IMPACTS ON ANNUAL ACCOUNTS AND MANAGEMENT REPORT

**As your business will bear the brunt of the economic consequences of the COVID-19 crisis, what will the impacts on your annual accounts prepared in accordance with generally accepted accounting principles in Luxembourg be? What about financial statements prepared under IFRS? And, what about the impact on the management report to be established by the management body?**

Unfortunately, COVID-19 is continuing to spread all over the world. Restriction and containment measures imposed by the different governments have variable economic consequences on our companies. The Economic effects of the COVID-19 crisis affect the financial and accounting situation of many companies.

## I. Going concern principle

For some companies, the COVID-19 crisis can lead to losses in production and turnover and can have significant negative consequences on their cash flow and their financial situation in general.

The management body of the companies must assess if the events resulting from the COVID-19 crisis, taken individually or globally, could jeopardize the ability of the company to continue its activities and if the application of the going concern principle remains appropriate while preparing the annual accounts.

If the management body identifies events giving it a reason to have doubt about the capacity of the company to continue its activities, then additional information must be provided in the notes to the accounts. In case of significant doubt and uncertainty regarding the continuity

of the company, the going concern principle must be reviewed, and the annual accounts adjusted even if the financial year ended on December 31, 2019.

For this purpose, the following questions should be asked (non-exhaustive list), and appropriate answers should be provided:

- Does the company's activity depend (in)directly on a supplier affected by COVID-19?
- What is the impact on turnover?
- What if the staff is affected by the epidemic?
- Will the company have to stop its production?
- Does the company have branches, subsidiaries, or investments directly impacted?
- Is the company sensitive to variations in market prices?
- Does the company lend to or borrow from companies impacted by the COVID-19 crisis?
- Will the company have to face liquidity issues?
- Can the loans be renewed? What about existing commitments?

- For an investment fund: are there unusual redemption requests?

The management body will have to review its initial budgets and forecasts in order to justify the going concern principle. The management body will also have to take into consideration the answers to the above questions in reaction to the measures imposed by the government but also the various aids granted by this government to support companies facing financial difficulties.

In this challenging context, keeping in mind that a reduction of the company's net assets falling below half of the share capital, the board of directors of a public limited liability company has (in accordance with article 480-2 of the law of August 10, 1915, on commercial companies) the obligation to convene a general meeting within 2 months from the time the loss is recognized or should have been recognized. The general meeting will deliberate on the potential dissolution of the company, and the board of directors will have to give explanations on the causes of

this situation, and will also have to justify its proposals in a special report. This report that will be made available to shareholders eight days before the meeting is held.

## II. Events after the closing date of 31.12.2019 giving rise or not to an adjustment of the annual accounts

The consequences of the COVID-19 crisis on the preparation of the annual accounts ending December 31, 2019 will be considered as a post-closing event which will not give rise to an adjustment of the annual accounts as the significant impacts of the COVID-19 crisis, such as measures taken by the government in response to the epidemic, only occurred as a result of events after the closing date. Companies must provide information in the notes to the accounts that reflect correctly new events or changes in the situation after the closing date, including an estimation of the financial impact if this can be determined. The information given must be clear and specific to the company.

In other words, in the event of a significant impact of an event on the annual accounts of the company, there is the obligation to provide in the notes to the accounts the nature of the event and an estimation of the financial impact. If this cannot be estimated correctly, this information must also be given and should include, at least, the items of the balance sheet that could be impacted by this event.

Most of the companies' annual accounts (including soparfis) are expected to be impacted by the COVID-19 crisis. For example, shares in affiliated companies, shareholdings, securities, receivables, and so on should be considered with particular attention with regards to their valuation.

## III. Financial year closing on 31.12.2019

Companies closing their annual accounts after December 31, 2019, will have to take into consideration the impact of the COVID-19 epidemic on their annual accounts. The management body will, among other things, review the valuation rules of

the assets, proceed with impairment tests, ensure that provisions for risks and charges should not be booked, review commitments with banks, analyze the impact of the COVID 19 crisis on the continuity of the company's operations.

For companies under the obligation to draw up a management report, the management body must, in accordance with art 68 of the law of December 19, 2002, on companies, detail the main risks and uncertainties that the company will have to face as well as provide an indication on the foreseeable evolution of the company. To this end, the management body should be able to rely on the answers given to the questions mentioned above.

## IV. Company accounts prepared under IFRS

BDO has issued several publications on the accounting implications of the COVID-19 crisis for companies preparing their financial statements under IFRS. You will find below the link to the latest bulletin issued by BDO.

<https://global-www.bdo.global/en-gb/microsites/ifrs/ifrs-reporting/content/most-recent-publication-releases/ifrb-2020-03-potential-effects-of-the-coronavirus-outbreak-on-2020-reporting-periods-and-onward>



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