Ihre Ansprechpartner

Sehr geehrte Damen und Herren,

für Rückfragen zu der beigefügten Publikation „In brief“ zur Thematik
„Consequences of the Greek financial crisis“
stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

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In brief
A look at current financial reporting issues

10 July 2015

Consequences of the Greek financial crisis

Issue

On 30 June 2015, Greece failed to make a required repayment of €1.5bn to the International Monetary Fund. As a result, it is in arrears of its obligations under the loan conditions and no further financing from the IMF is currently available. In the referendum on Sunday 5 July the country voted to reject the proposals from its international creditors dated 25 June 2015. The situation is fluid and the ultimate consequence remains uncertain. Potential consequences include further loan restructuring, further European funding and further austerity measures and even, potentially, an exit of Greece from the Euro ('Grexit').

With respect to year-end financial statements and interim financial statements drawn up to 30 June 2015, any future developments arising from the current situation (for example, major debt restructuring agreed post 30 June or any future Grexit) are non-adjusting events after the balance sheet date whose nature and estimated financial effect should be disclosed if significant. The financial situation of Greece as at 30 June 2015 represents an impairment indicator for entities with investments in the debt or equity of entities in Greece, together with any entities with trading activities in or with Greece. In some cases, it may no longer be appropriate for some entities to apply the going concern basis. This In brief gives you an overview of these potential issues and the relevant guidance under IFRS. Given that the situation in Greece is fluid and uncertain, look out for further updates as the situation progresses.

Impact

The Greek financial crisis has been the subject of previous alerts and many of the considerations in those alerts remain relevant. For financial services companies holding Greek debt (whether sovereign or commercial) there could be impairment and going concern issues following from the continued deterioration of the Greek economy. Furthermore, other investments in Greece (for example subsidiaries, associates and joint ventures) might also be impaired. There might also be implications for other entities, for example, suppliers of services to Greek businesses. Receivables due from Greek trading partners may also need to be assessed for impairment and written down if necessary.

Impairment testing

For the purposes of impairment testing the reference date of the cash flow projections will be no later than the balance sheet date and will be based on reasonable and supportable assumptions at the reference date of the impairment test. Events after the balance sheet date (including, for example, a Grexit) may trigger the requirement for an additional impairment test post balance sheet. Such a test would be performed based on the new information available at that time. Entities should also consider whether any new information confirms conditions which existed at the reporting period end. Such confirmation would be considered an adjusting event to be recognised in the current period. If the conditions did not exist at the period end, any impairment arising will be recorded in the next financial period.

Subsequent events

Paragraph 22(g) of IAS 10 gives abnormally large changes in asset prices after the reporting period as an example of a non-adjusting post balance sheet event. This applies to any significant deterioration in asset prices as a consequence of events after 30 June 2015.

Disclosure

The sensitivity disclosures for currency and potential interest rate movement for financial instruments required by IFRS 7, fair value disclosures under IFRS 13 and impairment disclosures under IAS 36 will be a starting point for the estimate of the financial effect, keeping in mind however that the effect should also be assessed for non-financial assets and liabilities. Furthermore, in any 30 June 2015 year end sensitivity disclosures, the range of 'reasonably possible' changes should take account of the events post balance sheet where possible. In addition, companies should consider the impact on other qualitative disclosures around principal risks and uncertainties and the specific qualitative disclosures required by IFRS 7 on risks and risk management.

Paragraph 21 of IAS 10 requires an entity to disclose the following for each material category of non-adjusting event after the reporting period:

- the nature of the event and estimate of its financial effect, or

- a statement that such an estimate cannot be made.

Such non-adjusting events disclosures would include, for example, additional impairments arising after the balance sheet date.

In relation to interim reviews, paragraph 16A(h) of IAS 34 notes that entities shall include disclosures about events after the interim period that have not been reflected in the financial statements for the interim. In addition, IAS 34 also requires disclosures under IFRS 7 and IFRS 13 which would include, for example, some sensitivity disclosures for recurring fair value measurements.

Going concern

The going concern assessment is prospective, so the entity will need to factor into that assessment the anticipated impact of the situation that exists at the date of signing the financial statements and associated auditor or review report. The basis of accounting should be changed to a basis other than going concern if the going concern basis is no longer appropriate after the reporting date (IAS 10 para 14).

If financial statements are not prepared on a going concern basis an entity should disclose that fact, the basis of preparation actually used, the reason why the entity is not regarded as a going concern (IAS 1 para 25) and include an emphasis of matter in the audit report.

Covenants

A breach of a borrowing covenant which occurs at or before the balance sheet date would trigger a reclassification of liabilities to short term. A breach of covenant after the balance sheet date does not trigger a reclassification of the liability to short term at the balance sheet date. However, it should be considered for disclosure as a non-adjusting post balance sheet event.

What if I have further questions?

If you have further accounting questions then please contact your usual PwC technical contacts.