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COVID-19 SPECIAL EDITION

CELEBRATING 25 ANNIVERSARY

NUMBER 5

COVID-19 VACCINE RACE: UPDATE

BUSINESS UNDER COVID HONG KONG

"MAY THE YEAR BE OVER"!

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Content

MANAGEMENT OF CHANGE IN THE FACE OF UNCERTAINTY

FOREWORD

Mauricio Mobarak

Introduction

During different times in history, humanity has faced various challenges, which have been studied since various approaches, which is why presented various theories to give them solution; between them we find wars, cataclysms, pandemics, economic crises, revolutions and many more....

Currently and derived from the crisis current by COVID 19. There are problems for countries,business, education and people. Those who we had never even imagined and that had not been raised, and above all with the haste with which they seek to solve them due to the pandemic that hits the continents of the world, where it is avoided all closeness and physical contact so the attendance in person at the centers work, offices, government entities, banks and educational centers of all levels is suspended. For this reason, the methods and techniques are changed that we should use traditional and Information Technologies are used and Communication (ICTs) in order to continue with economic, governmental, social and educational.

The fact of totally changing the face-to-face methods and techniques and use ICTs, mostly cause conflicts for not have great knowledge of the management of them, because their use was not required or it was not feasible in its entirety in the activities traditional of all kinds, which now they are transported to homes.

It is also important to consider the emergence problems such as availability of computer (s); For example, there is only one team at home or they do not count with him, or as in the case that in a family have students of different levels. They must also share it with one of the parents who run homeoffice. This is the case of numerous families currently in all the world.

Internet service is another problem. Sometimes the service is not available and in others the connectivity and or the with bandwidths are not enough or it is saturated by high demand, which causes sessions are not carried out in a timely manner.

Therefore, it is important to establish permanent training programs for managers, employees, teachers and students, so that the ICTs on a daily basis and for students to become familiar with this method. That allow to establish work strategies and evaluation consistent with the use of ICTs and remote and online work. This experience shows us that it is important updating and training in ICTs as well as their application in the virtual area.

In the case of business, this crisis has already led, it is not a future matter, but current, to redesign businesses, companies and the "modus operandi" and leads us to do a Business Reengineering, where no we just have to ask ourselves how to do the current work in a better way, but in that business we are and in which we should to be short, medium and long term, since the permanence of the companies, business, banking, government and people. It will depend on knowing how to adjust this new reality.

This special edition features some collaborations in this sense that we have started collecting from Members of our Global Firm, which, in this pandemic, has managed to internationalize every more and more in all corners of the world, with global projects, which today are more and more frequent and necessary to the survival and adjustment of businesses in actual times.

We wish the Members of our Firm and all its clients and collaborators success in the new destination that is marking and will continue marking us, for the crisis of 2020, which is also an opportunity and that is why we titled MANAGEMENT OF CHANGE IN THE FACE OF UNCERTAINTY.

Mauricio Mobarak, MBA

President of the world council

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8 de Octubre / *October 8th*
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9 de Octubre / *October 9th*
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Ethics and Quality

Lunes 12 de Octubre / ***Monday, October 12th***
GLOBALIZATION The New Economic Map

Martes 13 de Octubre / ***Tuesday, October 13th***
Servicios Financieros y Jurídicos / *Legal & Financial Services*

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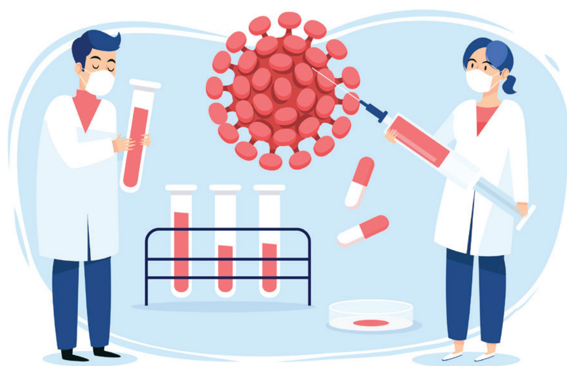
Covid-19 vaccine race: update



Prime Partners SA

The most serious candidates

There are currently about 140 different studies worldwide. Among the most advanced, we can mention Moderna (mRNA-1273), a clinical stage biotechnology company, which is using a new technology, in collaboration with the National Insitutes of Health (NIH). Moderna has currently nine development candidates in its prophylactic vaccines modality. The company has been listed since December 2018. Moderna announced a collaboration with the Swiss group Lonza to manufacture the vaccine. Lonza is bringing its recognized expertise in manufacturing technology and global presence to potentially enable manufacturing of up to 1 bn doses of mRNA-1273.

Note that the track record of Moderna is very limited as it has not launched any product in the market. The current market cap is USD 27.3 bn which is clearly anticipating a success. Sales of Moderna reached only USD 60 mio in 2019 with a net loss of USD 513 mio. The Bloomberg consensus anticipates sales of USD 2 bn in 2021 with a net profit of USD 790 mio. This story is all about the success of its covid vaccine.

AstraZeneca, Johnson & Johnson, Pfizer (in collaboration with BioNTech) and Sanofi are well placed in the vaccine race. Among these large companies, Sanofi and Pfizer could benefit from a large experience in vaccine. They both hold a world market share of around 20%.

The market leader in Vaccines is the US company Merck with a market share of around 22%. Merck's vaccine business is led by Gardasil, which protects against cevical and other cancers related to the human papillomavirus. This product may generate nearly USD 3.9 bn in sales this year. Despite an impressive track record in this field, the management has been very cautious about a covid vaccine. Recently the CEO of Merck indicated that it may take time to develop an efficient product.

The group is in the race for a vaccine but as the same time is also developing an anti-viral for Covid patients that will compete with Gilead Remdesivir, with the benefit of oral delivery versus a hospital infusion. This molecule is due to start a Phase III trial in September and Merck confirmed to be able to manufacture millions of doses by year-end.

Uncertainties remain huge of which company will launch the first a efficient product which explains why governments are making agreements and orders with different companies at the same time. These companies have soon received cash from the US and the EU in funding

What about the pricing ?

Moderna indicated it will not sell the product at cost. Pfizer and its partner BioNTech announced a deal to sell 100 mio doses of the vaccine to the US government at USD 19.50 per dose. The range of prices the government pays for flu vaccines in closed to USD 15.-. J & J and AstraZeneca executives mentioned they would not take a profit on at least some sales of their Covid-19 vaccines.

It is also unclear if people need regular booster shots to maintain their protection, so the vaccine could pull in regular revenues for years.

Worldwide production deals ?

If the target is to immunize seven billion people, a large collaboration in manufacturing among all main players will be needed, which has been confirmed recently by the CEO of Lonza.

What about Roche and Novartis ?

Roche, as the market leader in diagnostics, has developed serology tests to detect Covid-19 antibodies which led to large orders from the US government. Novartis, which is no more a vaccine producer, is currently more concentrated on the successful launches of new products and the development of its Biopharmaceuticals segment.

We confirm our positive stance on Merck, Roche and Novartis

Merck is the market leader in immunotherapy and its cancer blockbuster Keytudra should generate USD 14.5 bn in sales this year and USD 22 bn in 2025. Its vaccine business is expected to generate revenues of USD 9 bn in 2021 with an EBIT margin above 30%. The group is also no 2 in Animal Health, a stable and growing business. Non-core healthcare products will be spun-off in a new listed company. In a case of a success of a current developed vaccine, Merck may provide its production facilities. The group may also have positive Covid-related news in the coming months to drive the stock higher.

Roche has successfully launched a new generation of cancer products and is now much less dependent on its three old main products. Operating margin of its pharma division above 40%.

Novartis has maintained an above average sales growth momentum (+7% in l.c. during the first half of the year) thanks to innovation. Impressive margin improvement thanks to a focus on costs control. The group is also world market leader in Biopharmaceuticals whose sales should be closed to USD 2 bn this year, representing more than 20% of the revenues of Sandoz. This segment is growth 15%-20% per year, adding CHF 300 to CHF 400 mio sales per year. The profitability is estimated to be as high as the one of its Innovative Medicines division and has logically a very positive impact on the Sandoz margin. Excellent track record of the CEO with the successful spin-off of Alcon

Valuation of these three stocks are very attractive with an average P/E of around 13.7x 2021, with a good earnings visibility. These groups are generating an impressive free cash flow which enable them to pay interesting dividends (yield between 2.8% and 3.8%) and to continue to enlarge their pipelines with selective small and mid-sized acquisitions.

Business under COVID-Hong Kong

Jeff Chang[1]

Hong Kong continues to extend COVID-19 social distancing measures. This includes ban on eating in restaurants after 6 pm, ban on gatherings of more than two people in public places, mandatory mask-wearing in public places, and special arrangement for significant number of civil servants to work from home. Fourteen types of establishments, such as bars, gyms and sports facilities remain closed.

The city has gone more than two weeks with less than 100 infectious per day. The total number of confirmed cases as of 17 August 2020 stands at 4,524 with 69 related deaths.

The Hong Kong Special Administrative Region (HKSAR) Government has been helping to soften the impact on the affected industries and the public. It has launched three rounds of measures totalling HK$287.5 billion to assist including:

1. The first round of HK$30 billion Anti-epidemic Fund (AEF) with measures rolled out to provide one-off subsidies to assist affected enterprises in sectors such as transport, food & beverage and retail.
2. The HK$120 billion relief package in the 2020-21 Budget announced in Feb 2020. This includes HK$10,000 cash for HK adult permanent resident, HK$700 million boost in tourism, government rent & fees concession and 100% guarantee to HK companies taking low interest loans.
3. The second round of the HK$137.5 billion AEF measures approved in April 2020. This includes four major components: job retention & creation, sector-specific relief, government concessions & provision of loans, and other relief through government facilitation.

The following are some of the measures as launched in these three rounds to support businesses.

Government Measures to Support Businesses

Employment Support Scheme

•Wage subsidies are provided to eligible employers who undertake not to make workers redundant during the subsidy period, and to spend all the subsidy on salaries and wages to their employees. Employers who have been making Mandatory Provident Fund ("MPF") contributions or have set up Occupation Retirement Schemes for employees are eligible (with some exceptions). Wage subsidies for each employer calculated on 50% of salary (capped at a salary of HK$18,000) at a specified month for 6 months. Subsidies are disbursed to employers in two tranches, with the first before end-June 2020.

•Grant a one-off lump-sum subsidy of HK$7,500 to about self-employed persons who have made MPF contributions for a specified period.

•About 800,000 persons in three sectors including construction, catering and road transport, which are not well covered by MPF, will be taken care of by the respective sector-specific schemes.

Subsidies to Businesses Affected by the Epidemic

•The epidemic, together with measures to reduce people flows and increase social distance, has affected many businesses, including the tourism, catering, transport and retail sectors, the arts and culture sector, agriculture and fisheries, conventions and exhibitions business, property management companies, hawkers, registered tutorial schools; as well as amusement game centres, cinemas, fitness centres, beauty parlours, etc which have closed due to Government measures to safeguard public health.

•The HKSAR Government has introduced more than 70 measures, under the two rounds of Anti-Epidemic Fund ("AEF") and the 2020-21 Budget to help these sectors against current difficulties through one-off grants, cash subsidies, rental waivers and the like.

1. Several subsidy schemes which have attracted more attention under the first round of AEF are as follows:

•Eligible holders of food licence receive a one-off grant of HK$80,000 or HK$200,000 each.

•Over 480,000 eligible construction workers and 7,000 construction companies receive a one-off subsidy.

•Qualified retail shops receive a one-off relief grant of HK$80,000.

•Arts groups receive "Arts and Culture Sector Subsidy Scheme" which supports various arts organisations and freelance arts workers. The subsidies are used to pay the salaries of the staff, contractors and freelancers.

2. Major subsidies under the second round of AEF include:

•Tourism Industry – Subsidy to licensed travel agents ranging from HK$20,000 to HK$200,000; travel agents' staff and active freelance tourist guides and tour escorts receive a monthly subsidy of HK$5,000 each for 6 months; licensed hotels receive a subsidy of HK$300,000 or HK$400,000 and tour coach drivers a one-off subsidy of HK$10,000.

•Passenger Transport – Reimburse 100% of the actual regular repair and maintenance costs and insurance premium for 6 months for the franchised bus companies, franchised / licensed ferry operators and the Tramways Limited; provide the registered

[1] Jeffrey Chan, Managing Director, Ascent Step International Limited.
Ascent Step Finance is a firm of CFOs and Financial Controllers, with commercial astute and well experienced in the Greater China finance circle, who provide finance consultancy, management accounting services, and CFO/financial controller part time services to support organizations and professional firms in the region.

owner of a taxi, red minibus, non-franchised bus, school private light bus and hire car, as well as the licence holder of green minibus service a one-off subsidy of HK$30,000 for each vehicle; provide each eligible active taxi and red minibus driver a monthly subsidy of HK$6,000 for 6 months.

• Catering Sector – Subsidy ranging from HK$250,000 to HK$2.2 million for licensed catering outlets selling or supplying food for consumption on their premises. To support employment, catering outlets receiving the subsidy are required to undertake not to implement redundancy of staff during the subsidy period, and that not less than 80% of the subsidy for the respective months would be used for paying staff salaries.

• Aviation Industry – One-off subsidy of HK$1 million per large aircraft and HK$200,000 per small aircraft are offered to the eligible air operators. Aviation support services and cargo facility operators at HKIA receive a one-off subsidy of up to HK$3 million.

• Education sector – One-off relief grant of HK$80,000 is offered to each eligible catering outlet (namely, tuck shops, canteens, and restaurants) in primary schools, secondary schools, University Grants Committee-funded universities, the Vocational Training Council and self-financing post-secondary institutions.

• Construction sector – One-off subsidy of HK$7,500 to each eligible construction worker; and HK$20,000 or HK$10,000 to each construction-related enterprise not eligible for the first-round measures. Such enterprises include eligible constructors, specialist contractors, works contractors, suppliers, etc.

• Provide a one-off grant of HK$7,500 to each registered coach under National Sports Associations and Sports Organisations who has proven coaching record in the past year as well as each instructor, coach, trainer and provider of interests classes for schools or organisations subvented by the Social Welfare Department.

Ease Cash Flow Measures

• Hong Kong Mortgage Corporation Insurance Limited introduced a special 100% Loan Guarantee under the Small Medium Enterprise Financing Guarantee Scheme. This aims to alleviate the salary and rent pressures on SMEs and is mainly administered through designated banks which can lend to SMEs. An interest rate of Prime minus 2.5% per annum is charged whereas all guarantee fees are waived. It is applicable to SMEs in all sectors with a total loan funding of HK$50 billion.

• Apart from the 100% guarantee loan as mentioned above, there are also loans under the 80% and 90% guarantee scheme which enjoy an interest subsidy up to 3% and be open to application. The maximum amount for 80%, 90% and 100% guarantee loans are HK$18M, HK$8M and HK$4M respectively.

• Provide 75% rental concession to eligible tenants of government premises and eligible holders in respect of tenancies on government land from April to September 2020.

• Provide 75% electricity charges subsidy to non-residential accounts for 8 months with a monthly cap of HK$5,000.

• Waive 75% water and sewage charges for non-domestic accounts for 12 months till November 2020.

• Grant interest-free deferral of loan repayment for 2 years to those self-financing post-secondary institutions and non-profit-making international schools which have taken loans from the Government.

Tax Relief

Government also granted tax relief to individuals and businesses during COVID-19:

• Reduce profits tax by 100% in Year of Assessment ("YA") 2019-20, subject to a ceiling of HK$20,000.

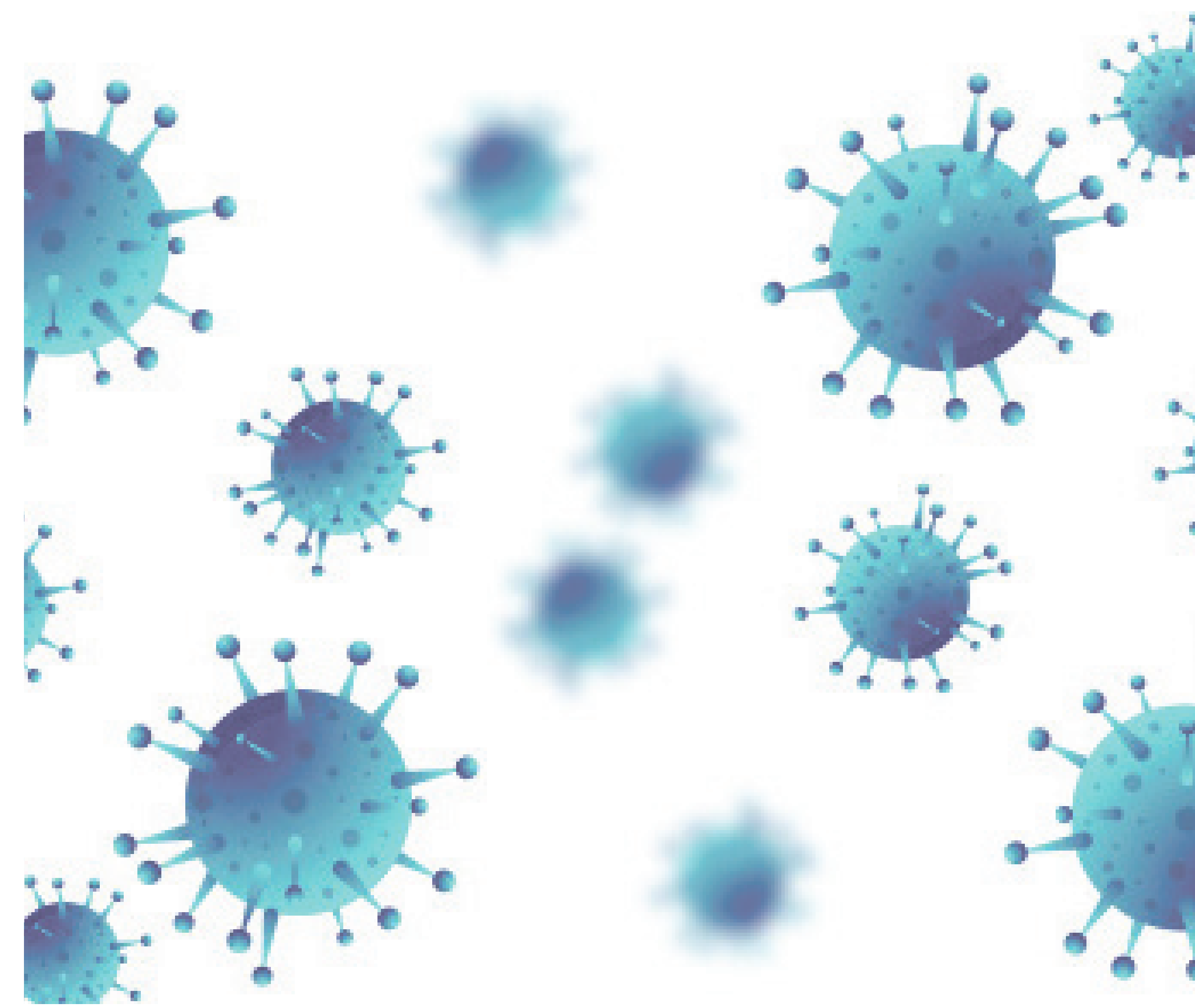
• Reduce salaries tax and tax under personal assessment for YA 2019-20 by 100%, subject to a ceiling of HK$20,000.

• Deadline for payment of salaries tax, tax under personal assessment and profits tax for YA 2018-19 that are due in April to June this year automatically extended for 3 months.

Tide over COVID-19

Hong Kong businesses are facing difficult times under COVID-19 but there are some temporary relief measures to support the businesses in the short term. To tide over the current difficulties businesses are finding ways to manoeuver to the new norm.

An important development is that the epidemic has accelerated the application of digital technology in industries, and many local companies have begun to adopt more technology products or services to improve operational efficiency. A recent survey predicts that in the next 12 months, local companies will be in a leading position in the application of financial technology products. Recently, the CPA Australia Greater China Division released a survey conducted from June 23 to July 14 this year and interviewed 573 accounting and financial professionals from Hong Kong, Mainland China, Malaysia and Singapore. The survey found that 84% of local respondents expect their companies will use at least one financial technology product or service in the next 12 months.



“MAY THE YEAR BE OVER!”

MPA Accountants

Undoubtedly an expression that reflects the feelings of many people in the current situation, setting their sights, halfway through the year, in 2021. What can be expected next year? Will it be a better year? Or can it be worse? These brief lines seek to confront these questions, intertwining the already classic political and economic spheres, with a new player on the field: health, who has already become a global agent.

HEALTH

2020 has undoubtedly been the Year of the Pandemic. Although it had its beginnings in late 2019, its economic effects hit the entire world this year. The main characteristics of this phenomenon, unlike previous epidemics, have been: its high level and speed of infection, its high possibility of complications and sequelae in the lungs, heart, and kidneys, and the stealthiness with which it spreads at the beginning, putting in trouble and stripping many health systems of the different countries that keep active cases today.

However, unlike other epidemics like Ebola, the different kinds of flu that Asian countries have faced and others like cholera, the Zika virus, and dengue, SARS-COVID-19 has been recognized as a global challenge, which has managed to bring together dozens of laboratories, scientists, and specialists from around the world to work as a team. Today we can already picture the tremendous progress in a process that historically has taken 15 years for other vaccines to be developed. The clinical testing stage is currently in progress, the longest in the production process. It is expected that by the end of this year it would have been completed and then, it is likely that the year 2021 will start with the sole challenge of producing in astronomical quantities and distributing the long-awaited substance. By the summer of the succeeding year, Mexico would have been wholly immunized.

ECONOMY

As a consequence of this health problem, the economy has been affected, leading the world to fall as never imagined before in its gross domestic product (GDP): bankrupt companies, massive layoffs, and irreversible damage to industries that depend on mobility and social proximity. Covid19 changed the world.

The economic problem has been complicated, due to three main factors:

1) The asynchronous spread of the virus. It had its origins in Wuhan, China, then in Europe, secondly on both coasts of the United States (due to the flow of people from Asia and Europe), and later in Latin America and Africa. Although this asynchrony represented an advantage for governments to “prepare” for the pandemic, the truth is that in a globalized world, having multiple spikes of contagion on a time scale generally causes it to remain paralyzed. In industries including automotive, aerospace, and technology, a simple product is made up of hundreds of components manufactured in the four latitudes.

2) Political and democratic diversity in the world. Each of the leaders of the affected countries has faced this situation differently. And here three factors emerge:

a. The information, ideas, and decisions made by the current ruler and his team of secretaries/ministers and advisers.

b. The state of the health system of each country, product of the decisions made by previous governments: although it does not justify the responsibility of the present government, it does form part of the structural base on which more or less investment has been required to face the pandemic.

c. The democratic advance, of human rights and respect for privacy in each country. Much has been said about authoritarian regimes like the Chinese; however, to face this situation, the ability to force its population not to leave, not to move and to make use of their personal information through technological applications (geolocation, body temperature, oxygenation level, etc.) for a safe reopening, played in their favor. Unthinkable measures in countries with a high individual liberty and privacy.

3) 3)Cultural differences and values of each society. Although the facts, in general, coincide with that phrase "each country has the rulers it deserves", this may vary at the regional, family, and individual levels. Today we know of countries where their inhabitants abide by education and common sense, basic elements to face the health crisis, like distancing themselves, use of face masks and frequent washing of hands and surfaces; and other countries, regions, cities or neighborhoods where it seems as if the invisible virus does not exist.

What decision to execute in the company? Firstly, to ask what is the situation regarding the three factors mentioned above: contagion stage, political vision, and people's education. These three factors are out of what the company can control, yes, but they are the basis on which the harmful effects of the pandemic can be lessened.

What is in the hands of business leaders:

1. Staff education, emphasizing that distancing, care, and cleaning outside the company are much more efficient, where they are free from the control elements that are carried out in the company. It is useless to take the temperature when entering the building, and spend on sanitization within the company, if on leaving they will attend meetings of friends and / or family. Even to the point of offering certain incentives (in addition to caring for their source of employment) to those who extend care at home.

2. Use of technology for the performance of certain activities. One of the chief advances derived from the Covid19 pandemic has been discovered that certain jobs and tasks can be done from home. This has even led several industries to fully migrate to the home office.

3. Adaptation of schedules, facilities, and tools. From enabling night shifts to reduce numbers of people who meet in one place, to the modernization of air conditioning and ventilation in offices and industrial buildings.

It is worth adding that this factor analysis should not only be done in the country or region where the companies and their branches operate, but also where the current clients are located. In the case of the Mexican automotive sector, attention must also be paid to how this situation is developing in the United States, which concentrates a large part of the vehicle purchase market in North America. The economy requires trust in the final buyer. In this situation, it is necessary to be attentive to the recovery of jobs in the northern neighbor, since it depends on such palpable factors as: 1) that people can leave their home to do a test drive for the purchase of a vehicle, 2) have a stable income to 'be encouraged' to buy a vehicle. In the case of utility and cargo vehicles, conditions may vary.

POLITICS

And related to the last paragraph, 2021 may represent a major change in the politics of the United States. In 2016, it was clear that polls, like any forecast, can be wrong. The forecasts today regarding the possible victory of Joe Biden have not had outbursts like in the previous elections. Furthermore, given the accusations that brought Trump to the apparent edge of impeachment, it is to be hoped these elections will be more closely watched in that regard, or that the current president and his campaign advisers no longer want to risk breaking the law. Other factors that may also influence are the mismanagement of the Covid19 crisis by the Republican president, whose discontent on the part of the population has been cleverly capitalized by Biden; and the fact that the polarization or populism strategy used for Trump's triumph in 2016 is that: a strategy already used, and it will be more difficult to have the same result.

Now, just as the crises of the late 1990s and late 2000s were well overcome by Democrats Bill Clinton and Barack Obama, it can be expected the current crisis, the largest one ever in history, will be well managed again by another Democrat: Joe Biden.

Regardless of the recent visit by the Mexican president to the United States, which was interpreted by many as forced support for the decadent Donald Trump, Biden's possible victory will not imply a serious risk of retaliation against Mexico. The deep relationship between both countries, economic, political, and cultural, will be much greater than that isolated fact. Furthermore, Mexico will cease to be the punching bag of the president of the United States. And as Biden pointed out on Twitter recently: "you will no longer have to worry about what the President tweets." Biden will represent more stability for the region.

Mexico, however, will have its own challenges: the country has guarded down the fight against Covid19, the economy is collapsing and, last but not least, 2021 is an election year: the interest of the current government will not only be in maintaining but increasing the majority in the Chamber of Deputies (on whom the approval of the federal budget depends). It should be remembered that in this country more than 95% of the taxes paid by taxpayers are Federal, so the Municipalities and States depend on the mechanics through which they are distributed.

The exchange rate, as mentioned in other occasions, is largely influenced by external phenomena. As in other crises, the economic recovery will begin outside of Mexico and if this recovery intensifies in the United States, it will put strong pressure on the exchange rate, although paradoxically it will also contribute strongly to the recovery of the 'tacos and tequila' country.

In addition to the fact that Mexico is currently NOT, an attractive country to invest in the short- and medium-term (in the long term it will continue to be, due to its proximity to the United States), there is the risk that its main company, Petróleos Mexicanos, who already lost the investment grade this year, continues to drag the finances of the current Government, as well as of several companies and funds whose investment policies depend (some by automated algorithms) on the weak variables of the economy. This will put even more pressure on the exchange rate.

The nearest dates to pay attention to are:

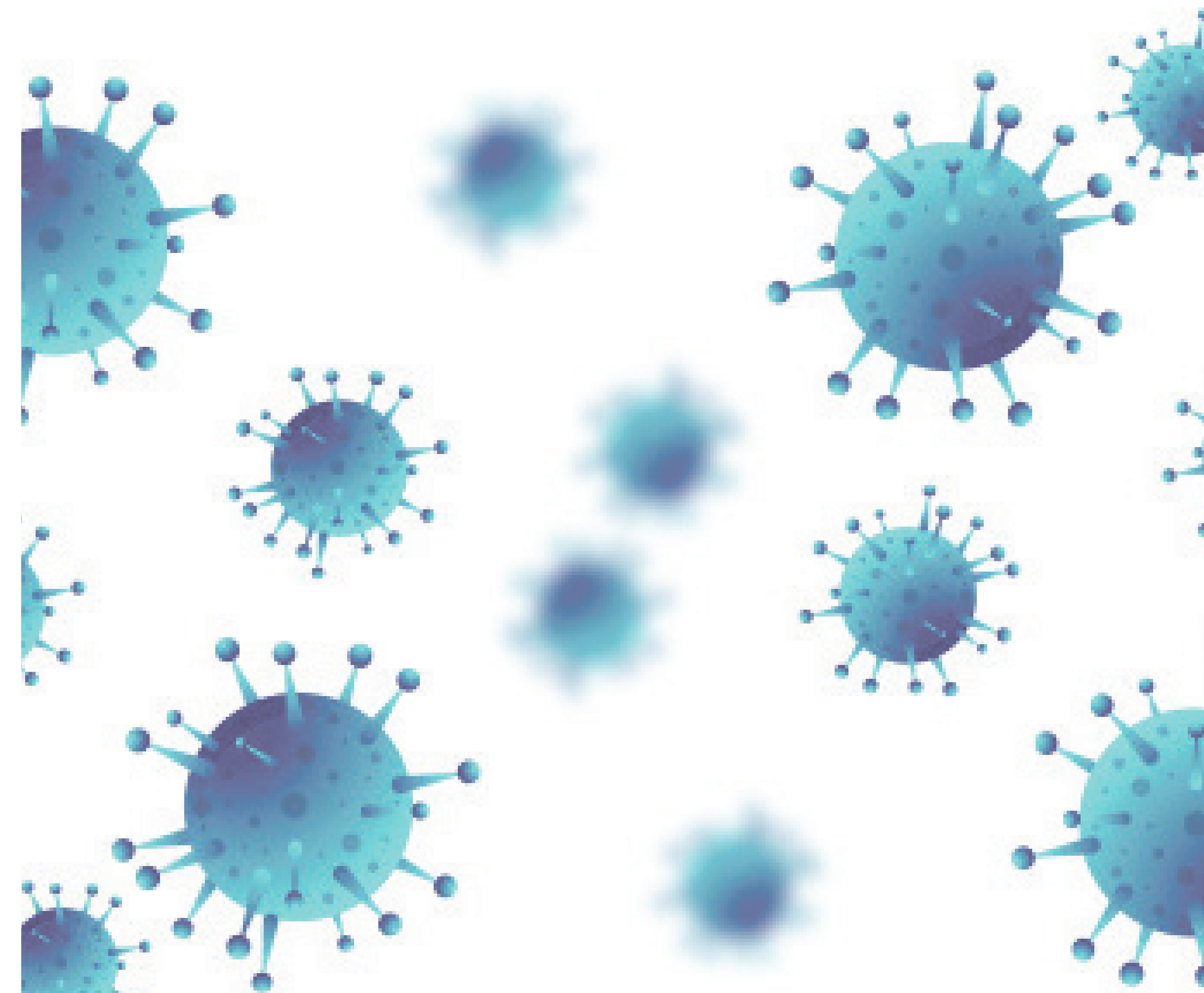
1) Presentation of the 2021 Economic Package, by the Executive Power, no later than September 8. This package includes the Expenditure Budget (public spending) and the Income Law (taxes) for the subsequent fiscal year.

2. Approval of the Income Law 2021, no later than October 31, since there it will be known with certainty what will be the rules of the game or fiscal changes to deal with during 2021.

3. June 6th, 2021, the date on which the elections will be held to renew the Chamber of Deputies in Mexico, as well as the governments and congresses of 15 States (half of the country).

In summary, an intriguing scenario is presented in the following 12 months. After these analyses, it is important to define the strategies to be followed at the company level. As is well mentioned, there are phenomena over which there are controls and others in which the only control is in the preparation and decisions made in this regard. Knowing how the path will be, the Company may decide what to carry with, and how to take advantage of each situation to generate growth.

As the last point, although repetitive for some readers of MPA in the automotive industry: the market share of electric vehicles continues to grow. It is important to understand what role to follow in this new industry and where the company must evolve, so it is ready at the time, perhaps far away, when most of the vehicles that circulate in a country or region are electric or are moved by new inventions or technology different from the one provided today.



Activity Based Profitability Management (ABPM) 2018

A support tool for Digital Transformation

Miguel A. García Huidobro

Context

The business world faces the pace of unprecedented change and disruptive and innovative transformation in all industries. The context of the current economy, the emergence of new business and operating models with increasingly narrow cost and profitability structures, the increase in technological innovations such as the Internet of Things, Artificial Intelligence, Machine Learning, Big Data, Analytics Advanced, Mobile Apps, etc., which enable Digital Transformation and improve the experience of customers or users of organizations. The reduction in the life cycle of products and services, the increasing trend of mergers and acquisitions aimed at obtaining the benefits of economies of scale, as well as the pressures of countries with low wages or offshore subcontracting models are just some of the factors of the Today's changing environment.

Dealing with all of those changes is too challenging, even if the managers have correct information. But if decisions are made based on inadequate information, they could be losing the battle.

The challenge for managers is to have adequate and accurate information regarding the cost structure of a business, cost of production or service, direct and indirect costs of business processes and their productivity, costs and real profit per product, per customer and channel, it is crucial to make the type of strategic and operational decisions, such as cost reductions, robotic process automation, process optimization, increase the profitability of existing products, customers and channels, implementation of new generation solutions with cognitive technologies, savings to fund growth initiatives, launching new products, customer segments and service channels, opening up new territories, outsourcing or centralization of process, among others, that they are required to successfully manage business in the turbulent environment of today.

ABPM enhances this process by providing the management with information on the profits and costs of the companies considering the mix of products, customers and service channels based on a business process approach of the value chain that can be used under the context of Digital Transformation.

The profits of products determined based on the "traditional" costing approach have proven to provide distorted information to manage, because costs not related to the product / customer / channel are diluted through arbitrary distributions, even more in the service companies that originally they do not carry out costing processes as happens in manufacturing companies. Also, productivity and quality productivity and quality measures are difficult to determine and link with these forms of distribution. Indirect, common or shared expenses have been increasing continuously and the vast majority of the time they have been underestimated.

What information can ABPM provide?

ABPM combines the following benefits:

It is based on strategic objectives and supports their achievement.

Activity information also enables management to monitor the implementation of strategic and operational decisions, as well as to measure the impact on business costs and profits. The ABPM model links each activity with one or more of the strategic objectives. For example: managing the activities and resources involved in "improving the quality of customer service" will help ensure that objectives are achieved and manage your implementation costs. ABPM will show which resources are involved and if the relative activities are performed for profitable or losing products. This will help management to focus the use of resources and prevent the allocation of additional resources (costs and expenses) towards unprofitable products or customers.

By delineating the strategic costs and benefits of individual activities in a cost / benefit matrix, activities that can be reduced or eliminated without putting the business at risk (high cost / low benefit) are identified.

	COST-BENEFIT MATRIX BY ACTIVITY						
COST							
Very High	1 Act, 4% of costs	4 Act, 15% of costs	5 Act, 22% of costs	2 Act, 10% of costs		9 Act, 25% of costs	Eliminate/ Reduce
High	1 Act, 1% of costs	3 Act, 5% of costs	3 Act, 5% of costs	9 Act, 15% of costs		19 Act, 51% of costs	Productivity Improvement
Medium	3 Act, 1% of costs	7 Act, 5% of costs	7 Act, 5% of costs	10 Act, 8% of costs		22 Act, 14% of costs	Invest
Low	11 Act, 1% of costs	6 Act, 1% of costs	5 Act, 1% of costs			27 Act, 8% of costs	Low Priority
	Low	Medium	High	Very High			
				BENEFIT			

Figure 1

The companies strategies are also reflected in the segmentation of products and clients. For example, on the client side, this means defining various types of distribution channels (large key accounts, end users, distributors with and without added value, OEMs, ...) with various segments (categories) within each type of client.

Interdepartmental processes and information on activities aimed at improving cost management

- Information on the cost of activities allows the administration to understand exactly what is involved in each activity, what is the cost structure, why the activities exist and what causes their costs. More customer-focused activities (internal or external) and breaking departmental barriers.

- Activity information allows human resources management to monitor the fragmentation of certain activities within the organization and to allocate the company human resources based on appropriate job descriptions. If a reason justifies it (eg geographical division) fragmentation of some activities throughout the organization is tolerated, there is the possibility of comparing the cost structure and the effectiveness of similar activities carried out in different locations;

- The activities are structured by processes. ABPM is therefore an excellent companion to Business Process Reengineering (BPR), it provides an illustration of process costs, which are generally lacking in some traditional business exercises of process reengineering;

- In addition to the definition of key performance indicators (eg. quantified improvement criteria) linked to activities, they will allow management to measure performance and manage and compare costs on a regular basis. As a consequence, the administration is enabled for the continuous improvement of the processes. For example, "poor quality claims handling", a process driven by the number of external customer complaints, will give an idea of how much it costs the company to investigate and resolve complaints. These quantitative figures can be used to monitor the evolution of the company in its customer service area.

More accurate and useful cost information that leads to higher profits and improved products and target customers

- ABPM provides a number of structures, which show exactly where losses and profits are generated (which products, distribution channels, and customers). A profitable company, approximately 70% of the total products do not meet the target of 20% Return On Sales (ROS).

- On the customer side, 55% of the total customers and 50% of the sales volume were not profitable (figure 2 real case example).

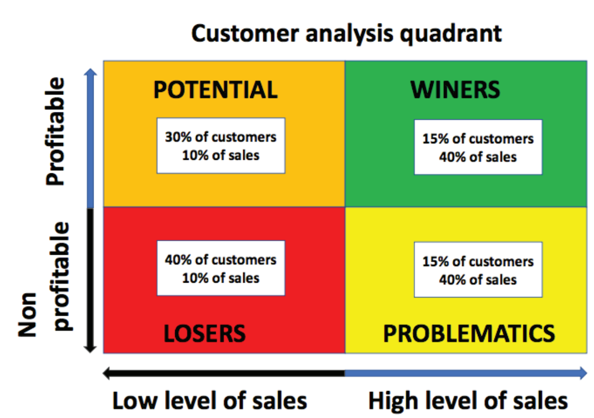


Figure 2

ABPM also takes further steps and will help management push the most profitable products through the most profitable distribution channels and customers. An example of the customer / product profitability mix combination is shown in Figure 3.

If management can reverse combinations that generate losses only in an breakeven situation, total profits could be almost double!

While Figure 3 is a simple example, ABPM has shown some companies how to multiply

Multidimensional Profitability Analysis					
Customer segmentation	Segment 1	Segment 2	Total		
Products Group 1	200	-50	150		
Products Group 2	-20	100	80		
Products Group 3	100	-120	-20	Profit	400
Total	280	-70	210	Loss	190

Figure 3

their profits by a factor greater than 14% by targeting less than 1% of their unprofitable customers.

- A crucial element in the Profitability Management per client is to identify the clients that are generating too many costs compared to their income generation. Customers costs include all costs of activities related to specific customers, which under a traditional approach are considered fixed or overhead operating expenses and are normally assigned arbitrarily to products or are not assigned at all.

This kind of analysis can improve pricing policies, guide improvement of target products/customers, and increase profits.

Applying the same concept to distribution channels will allow focusing and investing resources in the most profitable channels and allow better management of logistics flows.

- Most companies tend to reward losses. By the way, sales people are often rewarded for generating income rather than generating profit. Mainly because exact information on profits is lacking. By providing precisely this, ABPM enables people to be aligned with those high-profit company objective results.

Cost and profit information, which allows management to define and achieve target costs and profits (target costing)

This can be applied both for existing products (not profitable) and for the development of new products and services.

- For existing products, the level of utility and cost can be determined. ABPM's activity information enables management to understand where the problems lie and what decisions have to be made to achieve the determined cost and profit levels.

- For the development of new products, the market price is determined (imposed by the competition), the distribution cost and the desired profit is subtracted from the results in target cost.

A decision tool, which enables Activity Based Budgeting (ABB) and guides continuous performance improvement.

Activity Based Budgeting (ABB) changes the current situation and promotes continuous performance improvement. The ABPM model allows management to simulate the impact of the budget on the costs and profitability of customers, products and their mix.

Put simply, ABB involves reversing ABPM to determine the future structure of an activity. ABPM recognizes that the vast majority of indirect expenses are conventionally considered as fixed, they can be considered as variables, not so much in relation to the volumes of products, but in relation to the levels of the processes and activity drivers. ABB starts with products and customers and progresses as follows:

1. Projections of sales volumes and

product / customer mix, for the following period will determine the demand for activities via activity drivers (eg. increase the number of visits to customers);

2. The level of effort required by the activities will determine the resources (people, electronic data processing, equipment, ...) required via the resource drivers.

(If more client visits are budgeted, more time will need to be spent and consequently more staff time will be needed).

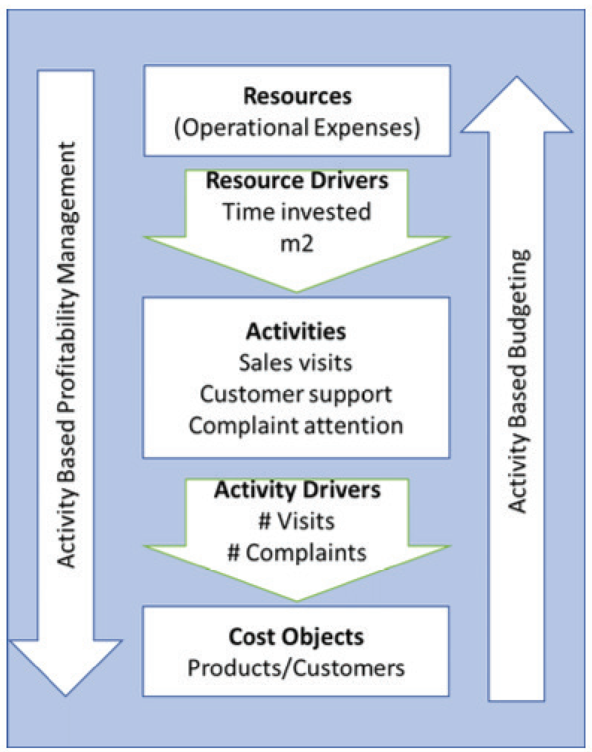


Figure 4

The benefits of an activity-based approach to budgeting include the following:

- ABPM and ABB make possible to understand the interrelation between the anticipated sales volume of the business and what is traditionally considered as fixed, common or shared indirect expenses;

- Before additional resources are required for an activity, performance improvement is emphasized via cost driver analysis (increases in automation, reductions in complexity...) and excess or additional capacity requirements in the activity are used first. In many cases, high sales volumes can be generated without additional resources or even with fewer resources (cost reduction is facilitated);

- The costs of products / services under a new thinking based on Digital Transformation as the improvement of existing processes, as well as new processes is promoted. The budget is made by an activity, which crosses departments. People from different departments will have to work together to generate budgets for the activities they perform. This focuses more on the client of the activity (internal or external), breaks the departmental barriers and generates a better understanding of the real cost drivers;

- Resources are assigned or rebalanced in line with the strategy. These can be assigned to those activities that are important to achieve the strategic objectives and it is important to deliver added value to customers (see also cost-benefit matrix in Figure 1). ABPM will also show if the clients and products for which they are performed are profitable;

- The impact of the budget on the profitability of products and customers can be simulated.

It is important to mention that nowadays there are already specialized Software solutions for Activity Based Cost and Profitability Management that include the functionality to calculate the ABB.

A tool for decision simulation

ABPM supports the decision-making process by simulating the impact of decisions on the cost of activities and profitability of products, customers and service channels. Some examples of possible simulations are:

- The impact of Business Process Reengineering (BPR) in the cost structure and profitability of customers, products and service channels of a company. BPR can show significant improvements in performance, which can result in reducing cycle time (duration from taking and filling an order), increasing quality or reducing costs. The impact of these improvements can, via ABPM, be simulated and measure performance.

- The impact of introducing new customers, products or service channels in the cost and profitability structure of the company. This information is very valuable to help determine pricing policies and commissions to be paid to agents and sales personnel.

- The impact of major investment decisions. For example, if a larger Innovation in Technology project is considered, the activities in which the project is expected to have the greatest impact can be identified. The ABPM model will show whether these activities are performed for profitable or unprofitable products, customers and service channels.

ABPM is a tool that provides essential information for senior management. The commitment of this is very important and does not happen when the implementation covers only one part of the organization. This is a waste of effort to build a decision tool which is used in a department for under-optimization.

Some practical tips

Because ABPM is a strategic management tool, it is crucial to determine the appropriate level of detail, first, at the activity and product / customer / channel level.

Too much detail in the definition of activities often runs the risk of making the model very complex and therefore reduces the flexibility and value of information to management. There is no correct number of activities, but if you have over 150 activities in a highly centralized company with 1000 people, you have too many!

To avoid building a very complex model, it is also recommended to segment customers/ products/channels (cost objects). Instead of building a model that provides cost and profitability information for each of the 10,000 clients (example), the model could incorporate 5 types of distribution channels with 10 categories of clients for every 40 clients (2,000 in total). There may be a category that represents the rest, such as a customer. Defined categories where detail is available typically represent 80% or more of sales.

At a strategic level, this means that it is possible to decide, through which customer segment, a certain product should be pushed to obtain maximum profits, instead of investing in great efforts to push all products without any focus (and less profit or a loss).

Also ABPM meets the need for information for strategic management and its purpose is not to replace the requirements of legal or corporate reports, which have a totally different objective.

Conclusion

ABPM offers organizations a comprehensive tool to gain a competitive advantage and provides crucial information to support the process of making strategic and operational decisions in today's business environment. It may seem that having this type of information to manage profitability, costs and budgets is not necessary to implement Digital Transformation solutions because the implementation of new technologies does not require this kind of evaluations, and it is assumed that it should be implemented regardless of what it implies and at any cost, but this is an error because it will always require business processes, products or services, customers or users, service channels, etc. that they must be evaluated, implemented, measured and improved from a financial point of view and within a competitive and market environment. In this sense, the information on profitability, costs and budgets provided by ABPM will lead to better business decisions that significantly increase the performance and profits of the companies.

COVID 19 PANDEMIC EVENT – ITALY

KERDOS

Fabrizio Confalonieri

Italy discovered the first case of COVID-19 within its borders in the late January of this year. The subjects with this virus where 2 Chinese tourists in Rome.

At the first step it seemed to be an occasional situation with no impact for the Italian citizens.

The politic discussions started right immediately with the request of some of the Italian opposition parties to quarantine people coming from China and the answer from the governing parties that it was not necessary with the slogan "Hugs a Chinese" and the accuse of racism.

This time spent in polemic discussion was fatal for the disgrace that Italy has suffered this year.

The 21st of February, the disaster started with all its force when in a little city of the Lombardia region the first case of Italian affected was certified.

Jus a few days later the Italian government decided the lock down of the area around that little village and other 2 areas in the Veneto region.

Unfortunately that was not enough.

In the next 15 days the Covid pandemic exploded in Lombardia, around the city of Bergamo (probably because of the important football match of Champions League Atalanta – Valencia, when 60.000 people where at the stadium) and some areas were roughly infected.

The government was required to create a red-area of lock down in the main suffering areas, but the decision was delayed until the 9th of March when all the country was put in lock down.

Most of the people who died in this period where in the regions of Lombardia, Veneto and Emilia Romagna, the most reach and internationalized business region of the country.

In that period the hospitals in the affected area had not enough bed in the Intensive Therapy departments and the medical choice were not correct because the oxygen that was a major damage for the subject with Covid that – but this it was discovered later – suffered and died for embolism and not for respiratory crisis.

In these countries anyway there have been big differences in the number of affected and death; in Lombardia, for example, there have been a wide number of death in Bergamo, but in Milano and Monza (where we live), the number of deceases where very low respect of the number of people living in the area.

Considered the very low number of deaths outside the three region indicated, probably it would have been better to create small "lock-down area" where there have been problems instead of put in lock-down all the country when probably it was not necessary.

At the end, more than 35.000 people has died for this pandemic event up to now.

The lock down has however become an economic disaster for the Italian economy. Up to now the estimated impact on the GDP is -12% respect of 2019, which gets back the Italian economy to the middle of the 90ies.

The government has tried to support the economy with 4 different decrees whose total support is up to 105billions euros, but our feeling is that most of these measures are not efficient because are dispensed on a vey big range of non-useful economic supports (like just to make quick example: bonus for the purchase of bikes, bonus for the purchase of scooter, support to the fly company Alitalia and so on).

We do not want to enter in discussion that are mainly political based, but our opinion as administrative and fiscal experts is that 105billions euros could have been distributed better, impacting directly to the business areas which more have suffered because of this pandemic and exceptional event.

The government has furthermore decided to work strictly with the EEC in order to find a common way to get out of the economic crisis that will follow the pandemic events, but it seems to us that the strategy is not efficient.

The Italian economy needs a support now; the instrument – regardless of political observation about the conditions connected to the instruments studied in Bruxelles – will give, hopefully, effects from the 2021 on and just if there will be plans in specified directions (green economy for example), but Italy needs efficient support now, to avoid the bankruptcy of Italian enterprises today… "tomorrow" could be too late.

The support to strategic areas of the Italian GDP has been too limited; tourism and food has suffered a loss because of the lockdown that will not be recovered during this year.

Foreign tourists has limited their travels to Italy because of the pandemic risks but also because the quarantine period for people coming from some countries, and this is an important resource that will not support the Italian economy during the 2019, but to these main business sector the support seems to us that has been too low.

The Italian government has also put attention to the financial support to the enterprises suffering because of the lock down, providing National Guaranties on loans requested due to pandemic events. This decision too has not given, as of now, enough support to the economy because the loans has to be approved by the bank system, and Italy is not famous for the capacity to support small business with loan flows.

As of today we can say that Italy is out of the pandemic event from the medical point of view; we are on the other side really worried about the effect from an economical point of view and we expect to see the real effect in October\November when the decrees that prohibits enterprises to dismiss workers will end their effect and people risk to lose their jobs.

Impact of COVID-19 on UAE

Johnson Samuel

Around the world, the pandemic has disrupted daily life, paralysed air travel, wiped out at least $17 trillion (Dh62.4tn) from stock markets globally and forced governments to introduce economic stimulus packages worth more than $8tn as countries went into lockdown. The Covid-19 outbreak represents the biggest challenge to the world economy since the Great Depression of the 1930s, as lockdown measures imposed to limit its spread hit industries such as aviation and tourism hard.

The cowing effect that Covid-19, and measures to contain it, have had on travel, trade and business activity in general is expected to severely impact the UAE's non-oil economy, which accounts for around 80 per cent of the country's overall GDP.

What makes this a particularly startling set of circumstances for all levels of the economy, and across all sectors, is that 2020 – after five years of weaker growth following the 2014 collapse in oil prices – was expected to be a year of growth for the UAE. Now the country is staring into the face of what is likely to be the world's starkest economic landscape since the 2008 global financial crisis.

The UAE has responded proactively to both the health and economic threats. On the coronavirus mitigation front, it has restricted access to public spaces and social environments where the virus could spread, issued updated hygiene directives and sent many public workers home.

Economic support to minimise the impact of COVID-19

Central Bank of the UAE (CBUAE) launched an AED 100 billion comprehensive Economic Support Scheme for retail and corporate customers affected by COVID-19. Abu Dhabi Executive Council announced an economic stimulus package which includes allocating AED 3 billion to the SME Credit Guarantee Scheme. Dubai Government launched an AED 1.5 billion economic stimulus package which seeks to enhance liquidity and reduce the impact of the current global economic situation.

The measures are promising and surely welcome. More will hopefully follow from non-government actors such as mall operators, who are already being petitioned by tenants to defer rents. The survival of many businesses will depend on contractual flexibility. The year has morphed into a tribulation, with compassion to be prioritised over capitalism.

The International Monetary Fund said it expected the global economy to shrink 3 per cent in 2020, a sharp fall from its earlier forecast of 3.3 per cent growth. Lower oil prices also mean Middle East and Central Asia economies were projected to contract 2.8 per cent this year.

An overview of the expected future effects of the pandemic and lessons learned

The International Monetary Fund predicts that the global economy will shrink by 3% in 2020 due to the economic repercussions of the pandemic. For the Arab Gulf region, the IMF expects a negative overall growth of 3.9%; driven by COVID-19 and the decline in oil prices. The UAE is expected to see a 3.5% dip in GDP in 2020, according to these forecasts.

His Excellency Al Khoori Undersecretary, Ministry of Finance said: "The UAE has completed the restriction phase and is looking forward to the economic recovery stage with the aim to compensate the losses in H2 of this year. We expect that the wholesale and retail sector and financial services will witness the quickest and most substantial recovery. The real estate and shipping activities will also provide positive contributions."

His Excellency added: "One of the most important lessons we have learned from the spread of the pandemic is the importance of re-prioritising public funds and relying on appropriate cost-modeling for operational expenditures of ministries. Government activities still account for a large share of economic activity in the region, so disturbances to public spending, including government-related companies, will have severe economic impact on employment, trade, and capital flow, which will require a broader set of measures during the recovery phase."

Highlighting the measures that can be taken, His Excellency Younis Al Khoori said: "These measures include the acceleration of major capital projects with the postponement, or indeed cancellation of others that are not necessary, or will support economic development in the medium term, especially projects that have not yet started. We will also need to review residence laws due to the risk of a sudden decline in population and a rapid loss of a skilled workforce due to the temporary closure of businesses during the lockdown period."

Recovery in 2021

While the service sector activity will be hit the hardest due to containment efforts and social distancing, private and public investments will be delayed. Growth could resume in 2021 supported by the partial easing in oil production cuts and gradual pick-up in private sector non-oil activity.

Auditing and Accounting

The 2019 Novel Coronavirus infection ('coronavirus') or 'COVID-19' outbreak poses a serious public health threat. It has interrupted the movement of people and goods throughout the world, and many levels of government have instituted restrictions on individuals and businesses. The resulting impact on financial reporting will be significant. Many audit firms have issued publications on coronavirus that address the reporting implications in broad terms:

•Potential effects of the Coronavirus Outbreak on 31 December 2019 year-end financial reporting;

•Potential effects of the Coronavirus Outbreak on 2020 reporting periods and onward;

•Impairment implications of COVID-19 (IAS 36); and

•IASB issues amendments to IFRS 16: COVID19 related rent concessions.

The effects of COVID-19 are generally a 'non-adjusting' subsequent event as at 31 December 2019. Significant government action and intervention began to take place on 30 January 2020 when the World Health Organisation declared coronavirus to be a global health emergency, which generally triggers the recognition of the broad economic effects of the outbreak in financial statements. During the first half of 2020, the effects of the outbreak have evolved and changed, with different timings and effects in different jurisdictions, such that it may be difficult in a practical sense for entities to 'cut-off' the information that is relevant as at a particular period end.

IAS 36 Impairment of Assets sets out requirements for impairment which cover a range of assets (and groups of assets, termed 'cash generating units' or CGUs). A number of assets are excluded from its scope (e.g. financial instruments and inventories) and IAS 36 is therefore predominately applicable to property, plant and equipment, intangible assets and goodwill. While the requirements of IAS 36 have not changed significantly in a number of years, the 2019 Novel Coronavirus infection ('coronavirus') or 'COVID-19' outbreak that has had a significant effect on many entities, emphasises the importance of the proper application of IAS 36.

On 28 May 2020, the **IASB issued amendments to IFRS 16**, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19. The global pandemic has resulted in many different types of concessions being agreed between lessors and lessees, including rent deferrals, rent abatement/forgiveness and many other types of relief. The IASB decided to amend IFRS 16's requirements for lessees to simplify the lessee accounting requirements for rent concessions

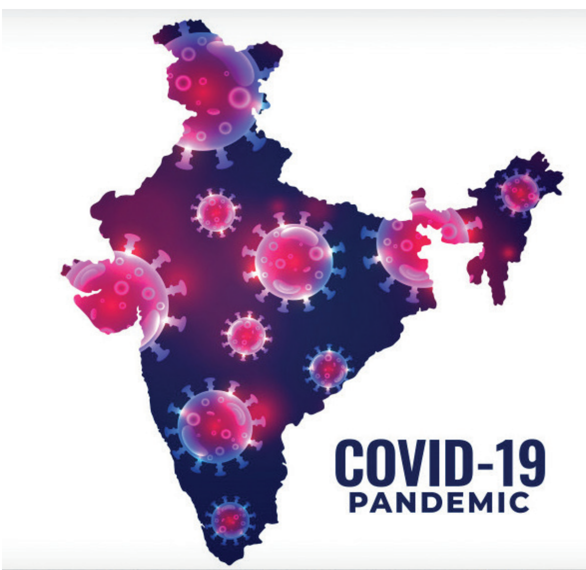
Impairment under IFRS 9 Financial instruments Where an entity has any financial instruments that are in the scope of IFRS 9's expected credit loss model (ECL) management should consider the impact of COVID-19 on the ECL. Instruments to be considered include loans, trade and other receivables, debt instruments not measured at fair value through profit or loss, contract assets, lease receivables, financial guarantees and loan commitments

Going concern Management should consider the potential implications of COVID-19 and the measures taken to control it when assessing the entity's ability to continue as a going concern. An entity is no longer a going concern if management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Management should consider the impact of measures taken by governments and local banks in its assessment of going concern. Management should also remember that events after the reporting date that indicate an entity is no longer a going concern are always adjusting events. Material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern should be disclosed in accordance with IAS 1.

Accounting Impact

The effects of COVID-19 will require entities to adjust their assumptions and systems that interact with the measurement of expected credit losses (ECL). ECL calculations may also be difficult to perform due to the level of uncertainty created by the effects of COVID-19.

COVID 19, INDIA AND ITS IMPACT ON AUDITING ENVIRONMENT



Pushpendra Surana

Covid-19, has proved to be testing for humanity. Death tolls and confirmed cases have been increasing alarmingly across countries. The business fraternity are sitting crossing their fingers as the disastrous consequences of Covid-19 on economy and business rise beyond their imagination. Stock markets have hit bottom in several countries, and many governments are still contemplating the mechanisms needed to pull back the economy from the imminent slowdown. The Government of India ordered multiple nationwide lockdowns to curb the spread of this pandemic, and has also come up with various stimulus packages for the economy.

As the Covid-19 outbreak is rapidly spreading in India, particularly at the time of book closure, how it is going to impact the accounting and audit practices is a serious concern for many. Business entities would be indulging in efforts to mitigate the impact of this catastrophe on their operations.

ICAI Advisory

Against this backdrop, the accounting regulator of the country, the Institute of Chartered Accountants of India (ICAI) has issued an advisory on the "Impact of Coronavirus on Financial Reporting and the Auditors Consideration". This advisory attempts to familiarise the preparers and auditors with some critical areas that require special attention amid this pandemic.

Auditing changes

Auditing would also face serious issues as it would be difficult for auditors to access the client location to conduct the stock audit and cash audit amid this situation. However, the quality of auditing cannot be compromised, says the ICAI's guidance. Auditors have to come up with alternate arrangements to conduct auditing effectively. Perhaps, auditing without a site visit would be an ideal option, given the current scenario.

Meanwhile, the applicability Companies (Auditor's Report) Order (CARO) 2020, which mandates newer and more stringent audit rules, has been postponed to the next financial year.

It is expected that the regulators would come up with more relaxation on auditing and publishing of financial statements, as companies require more time for book closure due to this black swan event. Since the economic impact of Covid-19 continues to evolve rapidly, firms should monitor this situation carefully and liaison closely with their board of directors, external auditors and other stakeholders, including the regulators, as the situation progresses.

Assessment of impact of COVID on accounts for FY 2019-20

An audit firm may share the following set of question to enquire whether any of the following have been undertaken by the management post the declaration of COVID 19 as pandemic:

New commitments, borrowings or guarantees that have been entered into as a result of the pandemic.

Invocation of force majeure clause after the year-end by any party (e.g., supplier, customer etc.) thereby impacting the supply chain / availability of customers for the entity's products.

Recent or planned sales or acquisitions of assets as a result of the pandemic.

Increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate that has been made or is planned.

Expected credit loss provisioning – where there are customers in COVID-19 impacted countries and where they have filed for liquidation post the entity's year-end will impact the collectability of the trade receivables.

Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements.

Relief or economic stimulus payments provided by the government in the form of loans or grants. It is important to understand the nature of the stimulus, conditions to be complied by entities, etc. Many of the concessions have dates attached and entities need to be cognizant of those as they determine impact on the financial statements.

Any developments regarding contingencies (for example, new contingent liabilities or circumstances affecting the evaluation of existing contingent liabilities, the ability to meet agreed-on performance targets for contingent consideration in business combination arrangements, etc.).

Any unusual accounting adjustments that have been made or are contemplated, such as additional or revised closing entries.

Any events that will bring into question the appropriateness of accounting policies and assumptions used in the financial statements (e.g. events call into question the validity of the going concern assumption, expected credit loss model, inventory obsolescence, useful lives of PPE etc.).

Any events that are relevant to the measurement of estimates or provisions made in the financial statements. Examples include derivative and hedging considerations (e.g. where a forecast transaction is no longer highly probable), insurance claims (e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets), rebate arrangements with customers or suppliers, variable consideration, commission accruals, etc.).

Any events that are relevant to the recoverability of assets, ongoing pertinence of business and valuation assumptions, valuation of plan assets.

Modification of existing contractual arrangements (e.g. reduction or deferral of lease payments granted by a lessor to a lessee, modifications to debt terms, etc.).

Tax considerations (e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets).

Employee termination benefits resulting from a workforce reduction (e.g. as a result of closure or reorganization of operations that occurred after the reporting date). This may be a contrary evidence in a situation where an entity is forecasting expansion in business in the subsequent year(s).

Some industries are more impacted than others e.g. entities in the aviation sector (and therefore entities that are feeder industries to entities in the aviation sector), real estate, construction, retail, tourism, hospitality, transportation, financing, infrastructure sectors. In such industries, it is critical for management to assess the impact of events occurring after the balance sheet date on the financial statements.

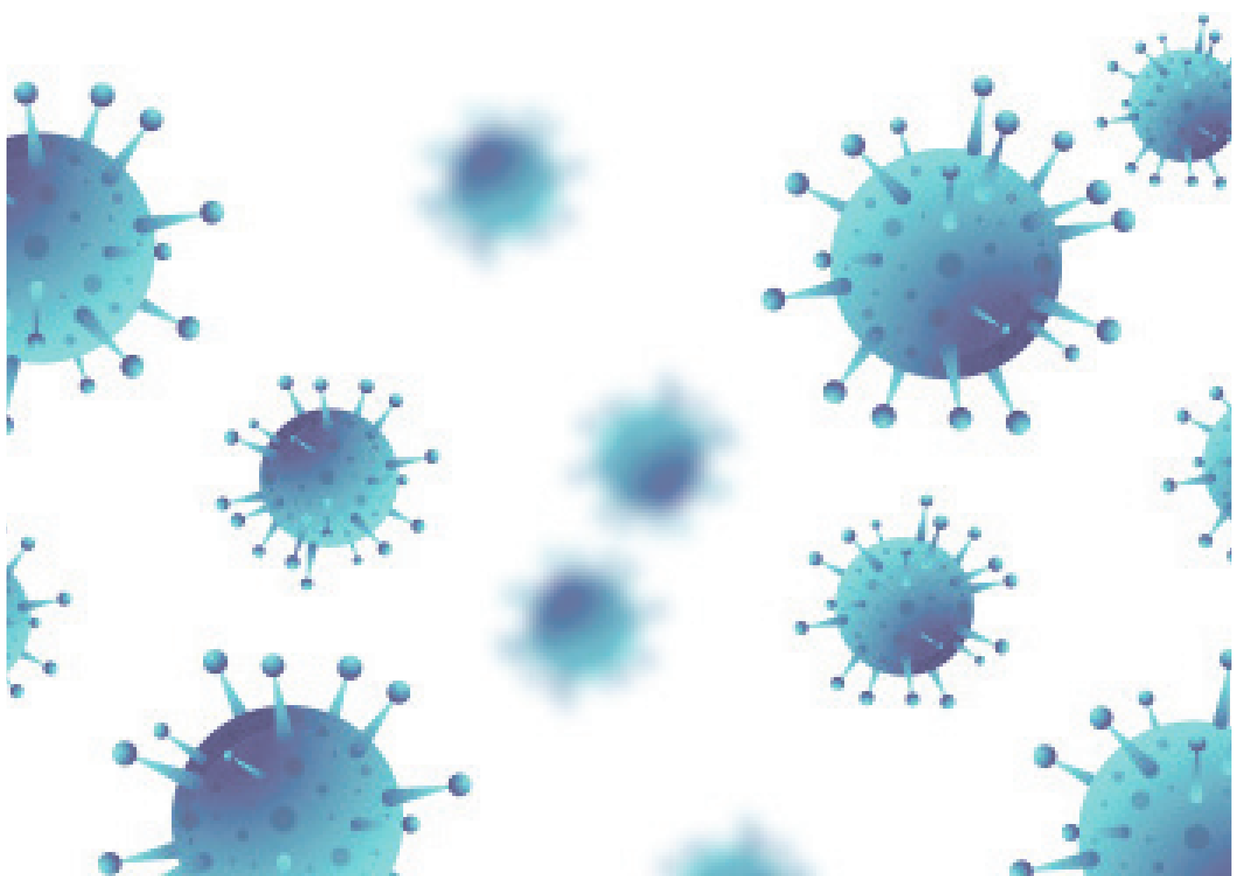
Impact on realizable values of inventory of a short-term nature in case of inability to sell the products during the period of lockdown.

Dishonour of payments / EMI received from debtors / borrowers at a date later than 31st March 2020.

Indications of impairment in the value of investments in companies whose businesses have been severely affected by the pandemic.

Any other significant events which would raise doubts over the entity's ability to continue as a going concern in accordance with SA 570(Revised), "Going Concern".

The writer is Managing Partner of S K SURANA & CO LLP, a chartered accountancy firm registered in New Delhi, India.



COVID-19: ECONOMIC IMPACT IN THE EUROPEAN UNION AND CYPRUS

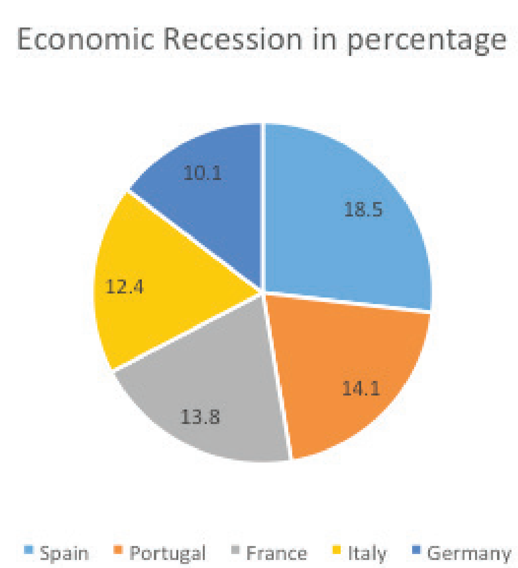
OXFORD TAX SOLUTIONS

In the EU

The pandemic of Covid-19 has caused an unprecedented worldwide health and economic crisis.

As a result, the global economy has been sink into a deep recession in 2020, much worse that the one of 2008 - 2009.

Furthermore, the Eurozone economy shrank by 12,1% in the second quarter of 2020 and Gross Domestic Product (GDP) for the whole EU is projected to have fallen by 11,9%.



All state members of the EU have suffered economic recession. Respectively:

The EU Commission warned in May, that the expected bloc will go through a "recession of historic proportions" in 2020 and doubled down on the statement earlier this month, announcing it that the recession will be "even deeper" that it had initially forecasted.

Brussels it's expecting that the economy the 19 countries using the common currency will contract by 8,7% this year. GDP for the wider EU is expected to shrink 8,3%.

For that, European leaders agreed, after marathon of talks earlier this month, to create a €750 billion recovery fund to block the economic storm brought by the coronavirus pandemic. The plan includes €360 billion to be doled out as loans and €390 billion in grants. Money for the grants is to be raised through the issuance of common debt - the first in the EU.

In Cyprus

Despite the fact that Cyprus is one of the smallest and most isolated countries of the EU, the island did not remained untouched from the economic recession.

The services sector, including tourism and travel, contributes almost 80% to GDP and employs more than 70% of the labour force which have been abruptly affected.

Following 2019 figures, set an all-time record with almost 4 million tourists, on March 2020 due to the pandemic, the government imposed severe lockdown measures, including the ban of flights, which had a huge impact in the tourist area.

Tour operators from Norther Europe cancelled contracts signed for holiday packages. As a result, many hotel reservations have been postponed or cancelled and lead to the closed down for this summer. For that, airlines forced to reschedule or cancelled their flight operations through the summer holiday season. Also, cruise lines stopped all of their activities with no indication when restart will take place.

Re-opening travel and tourism in EU and Cyprus is unknown how long this virus will go (without effective cure) economic sectors are expecting to recover in one year period. Tourism on the other hand, will probably suffer for a longer-lasting period which is estimated for 2 years.

Efforts for restart took place by introducing economic assistance packages. These measures extended deadline for tax payments and social charges, wage subsidies, loans and guarantees restructuring.

In tourist sector, efforts for restart have been done by travel agents, tour operators and hotels in order to reorganise their main activities. In order to attract new clients, especially domestic, big discounts are offered. Additionally, health measures took place based on protocols set by the EU and worldwide to eliminate the spread of the virus. Countries categorised to low risk and high risk, depending of destination of arrival to Cyprus and in some cases a 14 day quarantine for visitors may be needed.

As a result, costs have been increased dramatically, profitability drop, loss making operations and most companies decided not to operate in current tourist period.

In the first quarter of 2020, economic growth slowed down considerably, 0.8% (year-on-year), reflecting a significant fall in external demand for goods, on tourism and on economic sentiment. Expectations of the services industry, are at a historic low level, despite a slight improvement in June.

Based on the European Commission (EC) economic forecast for summer period expect significant risks to Cyprus economy as a result of the coronavirus pandemic's impact on the tourism sector, which is predicted to see just 25% of last year's revenues and high unemployment. Tourism, the main pillar of Cyprus' economy, has been severely affected.

The COVID-19 pandemic is expected to significantly dampen international demand for tourism. Tourist arrivals and revenues decreased by 46,5% and 52,4%, respectively in the first quarter of 2020 (year-on-year). The travel restrictions that took place throughout the second quarter, had a severe impact on this sector.

Even if the expected gradual recovery began on July, revenues from tourism could hover around 25% of last year's level, the EC warns.

Further prolongation of the travel restrictions from the UK and Russia - Cyprus main tourist markets - could have a strong negative effect. Furthermore, the sharp increase of unemployment in services linked to tourism and the increased risk of bankruptcies does not bode well for the recovery in 2021, the EC notes in its forecast.

According the forecasts, Cyprus was on a solid growth path before the global outbreak of COVID-19, but the pandemic, and the confinement measures that followed, have dramatically changed the picture.

In the first quarter of 2020, economic growth slowed down considerably, 0.8% (year-on-year), reflecting a significant fall in external demand for goods and tourism and economic sentiment and expectations in services are at a historic low, despite a slight improvement in June, the European Commission stated.

Finally, headline inflation is forecast to fall from 0,5% in 2019 to -0,5% in 2020, driven by lower prices for energy, processed food and services. Headline inflation is expected to turn positive again in 2021, at 0,8%, reflecting the recovery of energy prices and services. Core inflation is expected to fall by 0,2% in 2020 and to edge up moderately in 2021.

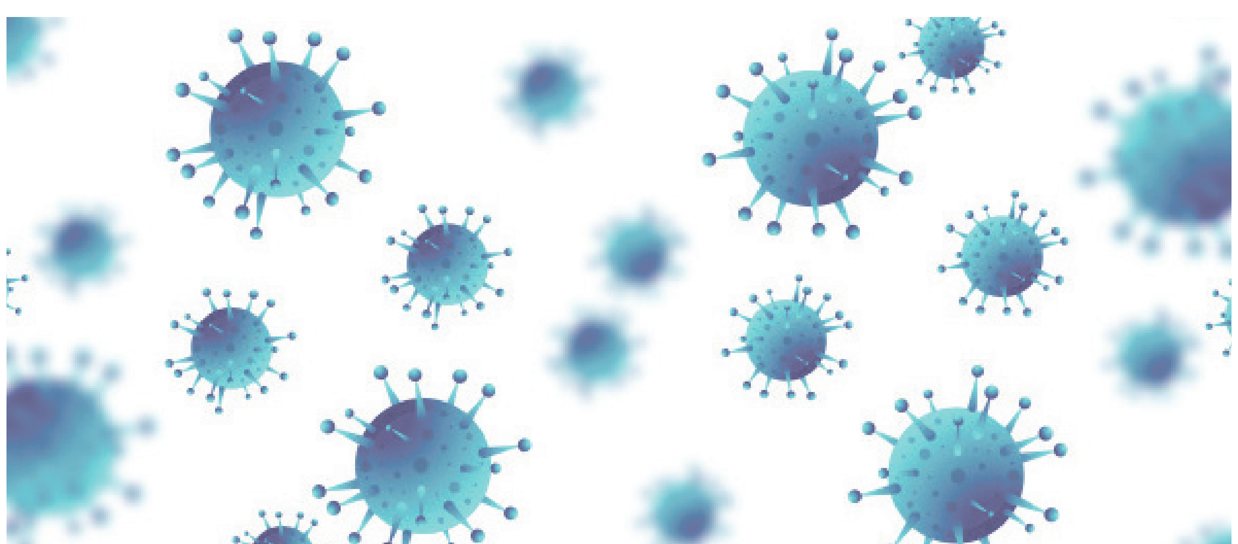
According to the EC, real GDP is forecast to contract by 7,75% in 2020 and to partially recover in 2021 by 5,25%.

Private consumption and investment, notably in equipment, are expected to decline substantially, but the stimulus measures that are adopted, are expecting to support employment, household incomes and businesses to continue investing and maintaining their capacity, thus somewhat mitigating the severe impact on domestic demand. This reflects in a robust increase in public consumption.

Conclusion

Even though there is a re-start, almost, in all areas and sectors, a new wave of COVID-19 is emerging in the EU and Cyprus. New measurements are set in order to avoid the spread. The re-start of the economy is set on slow but solid footsteps. Any delays are not on the daily agenda. EU is supporting, in any means, all of the state members financially and in the field of health.

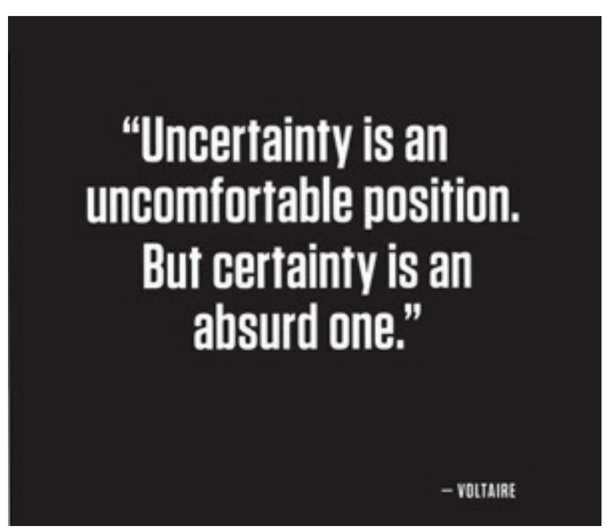
For Cyprus, it will take time to recover, but as things and rates shows, it will not be that long as the tourist and construction area are set back in track.



Being UNCOMFORTABLE in a crisis

(including COVID-19 pandemic)

José Ignacio Sordo Galarza[1]



[1] *José Ignacio Sordo Galarza, an international executive. Have worked with Fortune 100 firms, digital start-ups, and incubators around the world.*

Business author, often described as innovative for his ability to recognize new possibilities and drive transformations.

For most business leaders, COVID-19 is a crisis unlike any other in their entire lives. Four leadership virtues can help you lead effectively

The Covid-19 outbreak has placed extraordinary demands on everybody, from teachers, students, parents, politicians, and business leaders. What we all must do during a crisis is not to get fixated with the old paradigms (i.e. a predefined response plan and behaviors) but a forward looking mindset that should prevent us from overreacting and learning how to be comfortable with an uncomfortable new norm where with Change, Ambiguity and Adaptability will help us synthesize incoherent information to figure out a path forward.

As described in my book "The uncomfortable CEO" (*ISBN 978-1-935766-82-7*), the CEO's or Business Leaders are often described as innovative for their ability to recognize new possibilities. They have passion for winning, and earn the trust and respect of their consumers, customers, employees, and communities. However, what differentiates a below average performance from an average or exceptional one? One who face the pandemic challenges effectively? The best do approach challenges in a very consistent fashion:

"they get comfortable with being uncomfortable."

They are interested in what is right, rather than who is right; they have a general dissatisfaction with the status quo, and always looking for ways to explore new boundaries.

What remains in question, however, is our ability to comprehend and strategize the future of the business, —let us say in a post Covid-19 pandemic new norm—and then engage themselves and others into the new strategy. In doing so, they all share the four following virtues:

Strong curiosity. They find ways to meet people, thought- leaders and people in general across the marketplace in which their company competes. Leaders with a high level of innate curiosity discover invigorating opportunities; those without it find those same opportunities exhausting.

These executives have a critical and objective view of the imperfection and improbability of things. They have well-pondered and often strong points of view. At the same time, they are exceptionally attentive listeners and value diversity of thought.

The ability to face reality. This quality helps them overcome the sense of isolation, tap into past networks and create new ones inside (and more importantly, outside) of their organizations to connect with ideas, advice, critical questioning, and sometimes precisely the support they need to move forward. How could we collectively fight back Covid-19?

They have the courage to act. In a nutshell, these leaders can make difficult decisions that are neither pleasant nor popular.

Drive for results. Learning and understanding new challenges and tensions that arise in any business is a necessary, albeit insufficient, step.

These leaders develop far-reaching objectives and standards for their organization that go beyond those, which might be adopted by the average person. They attach great importance to making a personal difference in all they do. They have pride of ownership in leading the company.

They tend to expand the scope of their position. They are constantly on the outlook for new areas and new ways in which to contribute new ideas that can build volume and profit, as well as the organization's capacity (people).

"I have found that this willingness to embark on new experiences, often uncertain, sometimes uncomfortable, and even a bit frightening, is key to growth. This has become clearer and clearer to me as the years have gone by."

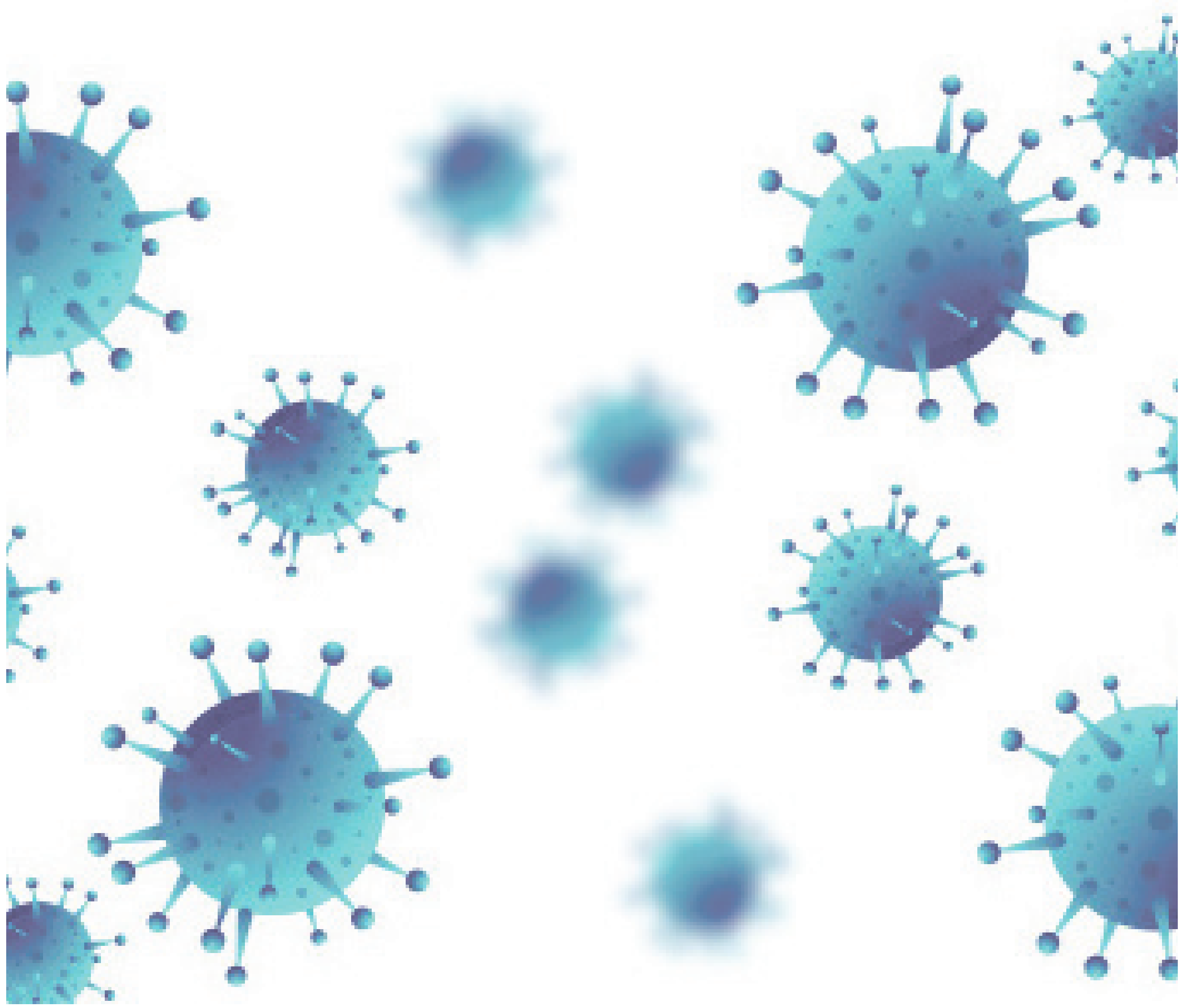
John E. Pepper (Businessman)

They combine tremendous personal initiative with respect for others.

Never settle. They consistently do more than is expected of them and accept risk. They speak their mind on an issue, whether their view is popular or unpopular. They always strive to learn more, do more and be more, even if this means being single for a while. Their work ethics demand the best and accept nothing less.

The world is being tested with the Covid-19 pandemic. It will set a post-Covid-19 mindset with short and longer challenges than nobody ever anticipated. Those who embrace the above mentioned four "uncomfortable" virtues will support and transform now their organizations and communities and will be mentally fit to prepare for the next crisis.

If you are interested and want to know more about my recent Covid-19 Webinar, sharing recommendations to signal a radical transformation in most industries please contact me @ https://www.linkedin.com/in/sordoji/



Effect of COVID-19 on the Economy of the Pakistan

Malik Haroon Shahid

Pakistan has been one of the countries worst affected by COVID-19, with the economic disruption caused by the pandemic exacerbating an already existing crisis. The Federal and Provincial Governments have taken immediate measures to protect the lives of general public and save them from the adverse effects of coronavirus. These measures are taken in the month of March 2020 which include complete and partial lockdown of cities; closing borders; stopping flight operations, travel bans, restriction on social gatherings, closing of education institutions, offices, marriage halls, restaurants, shopping centers etc. These measures of social distancing would also likely to have an impact on the national economy.

Before the COVID-19 outbreak, Pakistan's economy was struggling to stay afloat but was in no imminent danger of collapse. The pandemic caused slowdown in economic activity and increased uncertainty about the future of Pakistan. After recording its first contractionary year due to the COVID crisis since 1952, Pakistan is likely to face greater challenges in the new fiscal year starting July 2020. The pervasive and lasting effects of COVID-19 pose serious challenges to the economy of Pakistan which remains susceptible to its aftermath, despite efforts towards the outbreak's curtailment.

Currently, businesses are facing liquidity issues, and many more are experiencing insolvency. They require different kinds of support, for instance bailouts and provision of cheap funding, among others. Global trade further dampens thereby constricting exports and remittances inflow, while domestic fiscal adjustment becomes even more challenging. Higher debt accumulation is problematic, financing for development projects becomes scarce, revenues are difficult to increase while expenditure demand is immense. Synthesizing all this in an intricate policy mix has to ultimately be in place to smoothen this transition from crisis to stabilization. The Government of Pakistan has taken many good measures to stabilize the economy of the Pakistan.

The impact assessment of COVID-19 on the Real sector of the economy has given in the table.

Macroeconomic Overview FY2020

Items	Unit	Prov. 2018-19	Before Prov. 2019-20 Proj.	After Prov. 2019-20 Prov. Actual
Real Sector				
Real GDP Growth	%	1.9	3.3	-0.4
- Agriculture	%	0.6	3.0	2.7
- Major Crop	%	-7.7	2.8	2.9
- Livestock	%	3.8	3.2	2.6
Industrial sector		-2.3	0.7	-2.6
- Manufacturing	%	-0.7	0.5	-5.6
- LS M	%	-2.6	-1.3	-7.8
Services	%	3.8	4.2	-0.6
- Wholesale & Trade	%	1.1	3.2	-3.4
- Financial Businesses	%	5.0	4.7	0.8
Inflation (GDP Deflator)	%	8.4	11.8	9.1
Nominal GDP Growth	%	10.5	15.4	8.6
As % of GDP				
Investment	-	15.6	15.6	15.4
- Fixed Investment	-	14.0	14.0	13.8
- Public Investment	-	3.7	3.8	3.8
- Private Investment	-	10.3	10.2	10.0
National Savings	-	10.8	13.4	13.9
Domestic Savings	-	4.1	6.4	6.8
Foreign Savings (incl. Official Transfers)	-	4.8	2.2	1.5

Growth and Investment

Due to COVID-19, private consumption suffered significantly. In percentage of GDP, it dropped to 78.5 percent in FY2020 compared to 82.9 percent in FY2019. Significant impact has been observed in the manufacturing sector, particularly Large-Scale manufacturing and Small-Scale Manufacturing.

Due to lock down situation in Pakistan, the growth estimates of Small-Scale Industry for FY2020 are 1.52 percent. Similar to the industrial sector, services sector of the economy has also witnessed significant impact of the lock down situation in the country due to COVID-19, particularly in Wholesale and Retail Trade and Transport Sectors. The services sector has declined provisionally at 0.59 percent mainly due to 3.42 percent decline in Wholesale and Retail Trade sector and 7.13 percent decline in Transport, Storage and Communication sectors.

Agriculture

By the side of demand and supply chains the pandemic affected all sectors of the economy including livestock. The restrictions on movements has affected the livestock sector adversely which has 60.6 percent share in agriculture GDP and 11.7 percent in overall GDP. The poultry sector is the hardest hit by COVID-19 response and demand and prices of poultry has reduced considerably. Both supply and demand for livestock products (meat, milk, eggs) has reduced due to reduction in demand, and logistics issues/movement restrictions.

Manufacturing & Mining

All manufacturing sectors except Fertilizers, have witnessed decline in Mar 2020 in the wake of business closures due to COVID-19 crisis. COVID-19, as expected, had its impact on domestic consumption of cement industry that declined by 16.7 percent in March 2020. Exports also grew at lowest pace of 5.27 percent as the global markets are equally under pressure due to the same reason. Total dispatches (local and exports) in March 2020 declined by 14.25 percent. The pressure was heavier from the domestic market where the uptake was reduced 3.214 Mt in March 2020 from 3.858 Mt in March 2019.

Money and Credit

With the outbreak of COVID global and domestic economic landscape, SBP has changed its policy stance in March 2020 when Monetary Policy Committee (MPC) meeting held on 17th March 2020 decided to reduce policy rate from 13.25 to 12.50 percent. In order to mitigate likely impact of Coronavirus on economy, MPC cut policy rate to 7 percent.

Capital Markets & Corporate Sector

COVID-19 pandemic jolted the capital markets of Pakistan. After the COVID-19 outbreak, capital began flowing out of the Pakistan stock market and the index plunged to 27228.8 points and market capitalisation closed at Rs 5380.17 billion on March 25th. After COVID-19 pandemic, money started flowing out of the Pakistan's debt market. In the face of uncertainty, foreign investors sought shelter in the safe assets, selling their stocks and cashing in their bonds from emerging markets, including from Pakistan. The investors took out over $ 1.7 billion from T-bill investments in the month of March 2020.

Inflation

Average inflation increased to 11.8 percent during Jul-Mar FY20 (from 6.8 percent in Jul-Mar FY19) reflecting upward adjustments in administered prices and exchange rate depreciation. The State Bank of Pakistan (SBP) maintained a tight monetary stance during this period, keeping the policy rate at 13.25 percent to dampen inflationary expectations. However, as the COVID-19 pandemic spread, it reduced the policy rate to first 12.50% on March 17, then 11% on March 24, 9% on April 16, and most recently to 7% afterwards "to facilitate businesses and exporters who seek loans frequently from commercial banks to run their businesses".

Trade and Payments

Due to the fallout of COVID -19, the PKR depreciated by 3.9 percent in just one month during July-March FY2020. Due to the COVID-19 Pakistan's exporters are facing declining demand in overseas markets and difficulties in executing existing orders. Due to COVID-19, exports declined by 15 percent in March 2020 compared to Feb 2020 while according to PBS, in April 2020, exports remained only US$ 957 million, thus showing 47 percent decline compared to March 2020. On year on year basis exports declined by 54.2 percent in April 2020 to US$ 957 million as compared to US$ 2089 million in same period last year.

COVID-19 causing to lockdown and social distancing will adversely affect some services like education, travel, tourism, and hospitality, while, transport and distribution services may also be affected which are linked to merchandise trade. However, telecom, financial computer related services will be least affected as they can be provided online.

Due to COVID-19, there is slow growth in the global remittance mainly due to decelerating growth in advanced economies, lower oil prices and weakening of currencies of some of the source countries against the US dollar.

With regard to FDI, the COVID-19 outbreak could cause global foreign direct investment (FDI) to shrink by 5 percent-15 percent, (UNCTAD, March 08, 2020). In the context of Pakistan, the pandemic negative impact on investments will be felt strongly. The ripple effect could cause a major setback to efforts of government around the globe to attract the private investment and to achieve the target of US$ 4.34 bn for the year CFY 2019-20.

Public Debt

The debt-to-GDP ratio was expected to decline at the end of 2019-20 on the back of fiscal consolidation efforts of the government. However, the Covid-19 shock has resulted in a higher-than-anticipated debt-to-GDP ratio mainly due to a sharp decline in growth and increase in budget deficit.

Population, Labor Force and Employment

According to the report of the Pakistan Institute of Development Economics (PIDE), the COVID-19 pandemic can have negative impact on employment in the Pakistan. According to World Bank Data for 2019, the total labour/work force in Pakistan is around 75 million. As per PIDE, around 19 to 20 million workers could lose their jobs in various sectors due to prolonged nation-wide lockdown and resultant slow-down in the economic activity.

Socio-economic Impact Assessment

An estimated 56.6 percent of the population is socio-economically vulnerable due to the COVID 19 crisis. Women and children, especially those from more disadvantaged households and those who are home-based workers, will be among the most impacted. To understand the nature of these socio-economic impacts, rapid evidence-based assessment was undertaken by the Government focusing on three vulnerability areas: i) economic vulnerabilities, ii) social vulnerabilities, iii) food security related vulnerabilities.

I. Economic Vulnerabilities

a. Employment and labour force: Among the most vulnerable, the expected loss of employment (across both the agriculture and non-agriculture sectors) is estimated to be between 12.5 million to 15.5 million in case of moderate slow-down of economic activity/partial lockdown, and between 18.7 million and 19.1 million in case of severe restrictions to economic activity/full lockdown. It is expected that wholesale and retail trade will lose maximum workers followed by manufacturing, construction and transport.

b. Enterprise and entrepreneurship: According to SMEDA, 3.25 million SMEs constitute nearly 90 percent of all enterprises in Pakistan and contribute approximately 40 percent to annual GDP. Since most of SMEs are not documented (other than those workers registered under EOBI or a social security programme), they are not protected against loss of employment.

c. Labour migration and overseas Pakistanis: Due to the resultant contraction in the global economy and restrictions on international and intercity travel, migrant workers (overseas Pakistanis) may be adversely impacted in terms of permanent or temporary unemployment, or reduction in incomes.

d. Inequalities in labour force: Women dominate professions such as domestic workers, teachers and instructors in schools and colleges; several are also employed by SMEs. Due to lockdown conditions, closure of schools and colleges, stalling of transportation, and general inability to pay salaries, women are among the most vulnerable to lose employment. In addition, an analysis of home-based workers (HBWs) revealed that there are currently 12 million HBWs who earn around Rs 3,000 to 4,000 per month. Given that they belong to informal sector, they too face multidimensional issues such as low-income security and absence of social protection.

II. Social Vulnerabilities

a. Health and immunization of children: Provision of healthcare for non-COVID related illnesses is currently facing disruptions and closures with maximum resources and manpower being diverted towards responding to the COVID-19 outbreak. The ongoing lockdown and travel restrictions across countries has led to disrupted supply chains, stock shortages of essential vaccines and resultant disruption of immunization services. In terms of location, currently immunization services are being provided only from fixed sites. Outreach services have been stopped due to lockdown and non-availability of basic PPE for vaccinators.

b. Reproductive healthcare and newborn health needs: Currently, there are about 4.7 million pregnant women in Pakistan. The COVID-19 pandemic will have impact on reproductive healthcare and newborn at multiple levels: i) potential shortages of required medications (such as antiretrovirals and antibiotics) due to disrupted supply; ii) health care providers diverted to help address COVID-19 patients; (iii) financial resources diverted to COVID-19 response. This would not only take away funding from reproductive health programmes and decrease access for patients who rely on free or subsidized care, but also have a compounding effect on the other two sourcing of needed medication and engagement of required healthcare providers.

c. Inequalities in health-related outcomes: The outbreak has put an additional burden of domestic work and disease prevention on women. The responsibility of women in prevention and care of the disease extends outside the household as well. Moreover, majority of healthcare professionals (nurses, doctors, etc.) are women. In such cases, these healthcare professionals shoulder the responsibilities of both domestic work and homecare. Hence, such women have a higher risk of exposure to the virus, are more likely to be carriers and transmitters of the disease, and are also more susceptible to stress and overwork induced health issues.

d. Education and learning continuity: COVID-19 has directly impacted 42 million school going learners from pre-primary and primary to higher secondary and degree college levels. This situation stands to potentially exacerbate risks and vulnerabilities to an already weak education system, as well as steepen illiteracy levels. It calls for a comprehensive approach to ensure continuity of learning, mitigating the spillover effects of economic recession and safeguarding our frail education system.

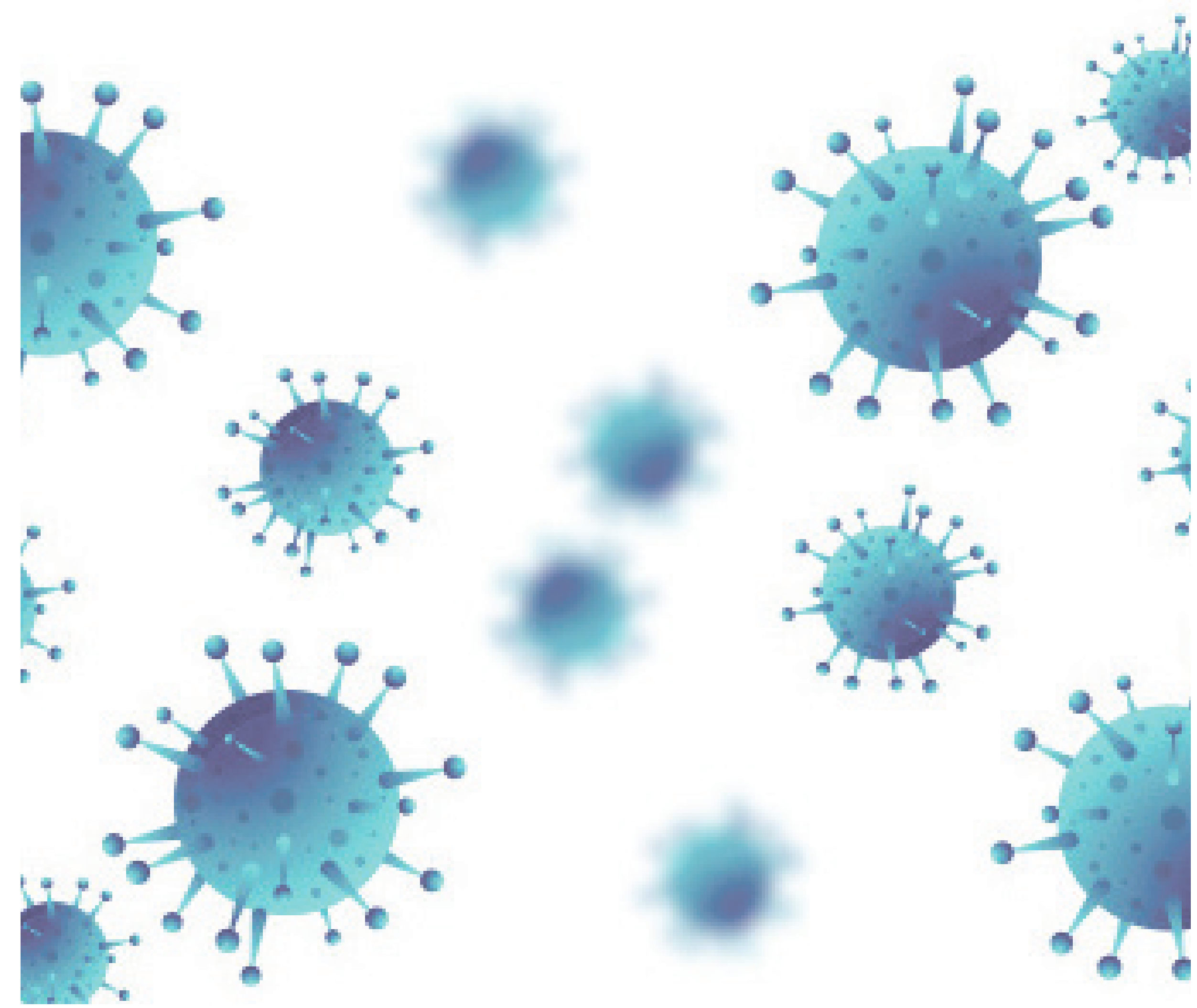
e. Inequalities in educational outcomes: With the shutdown of public and private schools across Pakistan, there is expected to be a disproportionately adverse impact on the most vulnerable groups, particularly women and those in rural areas and urban slums. Women are twice as likely to be taken out of school in crisis situations. In addition to preexisting barriers to education, the current crisis is expected to give rise to further limitations due to transport and mobility constraints, and declines in household incomes and purchasing powers. Geographically, rural areas and urban slums are potentially at highest risk with more than 70 percent of current enrolment and large pockets of already out of school children. Hence, the COVID-19 crisis may widen the already existing gender and socio-economic gap in the educational system and impact the overall literacy rate of the country.

III. Food Security Related Vulnerabilities

a. Agricultural supply chain: Border closures and existing lockdown conditions, preventing market place activity, will potentially have a disruptive impact on the agriculture value chain. It may lead to reduction in or non-availability of agricultural supplies such as Kharif plant seeds, fertilizers and livestock feed, etc. For the local consumer, this translates to potentially reduced availability of farm produce and related products in the market.

b. Nutrition: Lockdown, market closures, trade restrictions and disrupted supply chains may restrict people's access to sufficient/diverse and nutritious sources of food, especially in those areas most impacted by the virus and/or with a pre-existing lack of food security. Reduction in purchasing power will also potentially lead to insufficient food and nutritional intake. These causes stand to decrease dietary intake and increase the prevalence of malnutrition and related health ailments in Pakistan. Lower socioeconomic groups are most susceptible to this, particularly women-led households (since they are at higher risk of losing livelihoods) and children (since reduced household incomes and purchasing power will lead to restricted nutritional diversity and rationing of food intake).

c. Related livelihood: About 22 percent are dependent on wage labour (skilled/unskilled non-agricultural labour, forestry workers). Around 62 percent of households in the poorest wealth quintile rely on farm labour and daily wage as livelihood. Most of the farmers store wheat for household consumptions. Due to reduced sale of farm produce and related products, and reduction in other non-farm work, they may be compelled to sell their wheat stocks. This would also create nutritional vulnerabilities for such households, limiting their food supply and dietary intake. Another potential coping mechanism to supplement eroding household income, food supplies and other day-today essentials might be liquidation of assets by farmers (mainly poultry, livestock and other valuable assets). Similarly, small entrepreneurs, shopkeepers and small factory owners and labourers who are directly dependent on income sources from daily trade and economic activities linked to the food and agriculture are also likely to experience a sharp decrease in their earnings.



ANALYSIS OF THE ECONOMIC SITUATION IN MEXICO AND THE WORLD

Consejo Internacional de Empresarios

Global picture

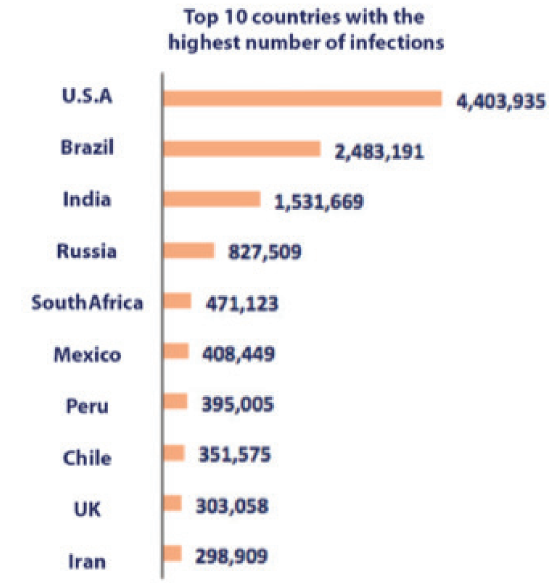
It's been almost 7 months since the first coronavirus outbreak occurred in the Chinese territory in the Wuhan region, after a fight against this new disease, the perspective on the health system worldwide has been questioned and even observed, saying it is not good enough to take care of a big number of patients. After several months fighting the virus, the University of Oxford (UK) has developed a vaccine that has so far yielded results described as "promising".

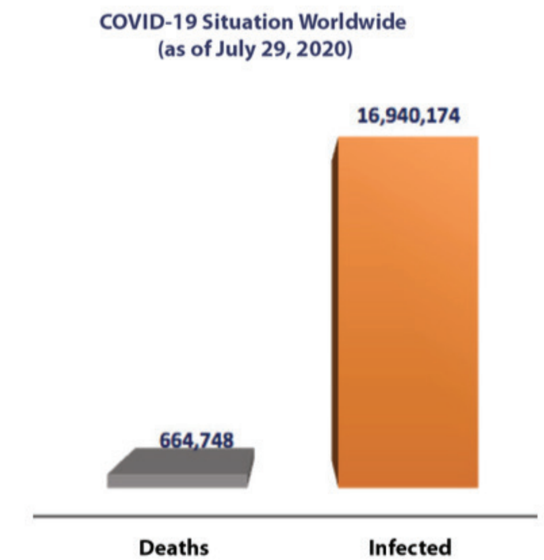
On July 20th, Oxford researchers announced promising initial results, based on a test consisting of 1,077 people. The vaccine, according to these data, is safe and generates a response from the immune system.

In Mexico, the Secretary of Health, Jorge Alcocer, affirmed that the Mexican government does not have a budget limit to acquire vaccines against the new SARS-CoV-2 coronavirus and announced all necessary efforts will be done to have them in the country. "In the Mexican government, we do not talk about budget limits, it is investment: health, vaccines; and everything necessary will be done to purchase the vaccines", the official said.

During the evening conference of health authorities, the federal official said that there is still no estimate of how much vaccines could cost in the country, although he commented that it could have a cost set to middle-income countries, which would go between 7 to 10 dollars.

Alcocer affirmed that there are 25 vaccines in the clinical phase and 141 in the pre-clinical phase, of which the Sinovac vaccine, the two ones developed by the Wuhan Institute of Biological Products with Sinopharm and the one from the University of Oxford in conjunction with AstraZeneca are the best ones





He commented that the developers are working with the most aggressive strains of the SARS-CoV-2 virus and warned that it is not yet certain whether the vaccines will generate immunity and for how long, so he reiterated that it will be monitored that the vaccines are safe, despite the immediacy with which they are needed.

He announced that the World Health Organization has established that vaccines will be distributed in such a way that 20% of each country can be vaccinated, prioritizing health personnel, adults over 65 years and adults with comorbidities.

Mexico Economic Expectations

The economic outlook of Banxico worsens its forecast consecutively, the analysts of the Bank of Mexico again adjusted their forecasts on inflation and closing of the exchange rate for this year.

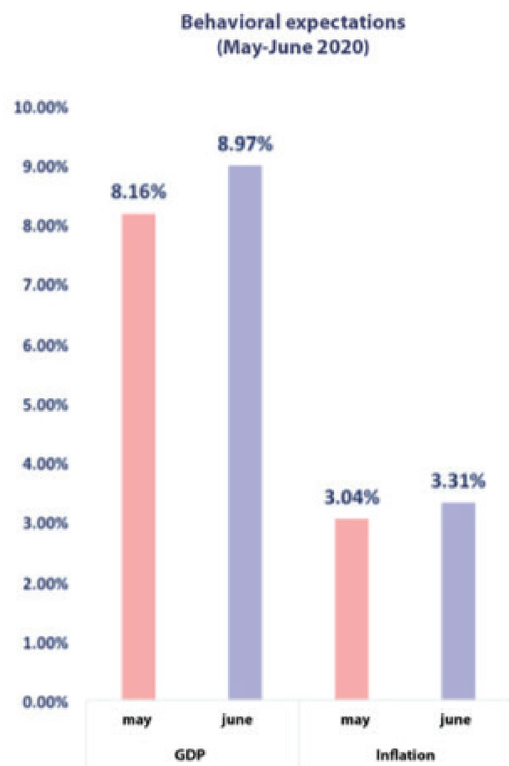
The consensus of specialists foresees an economic contraction of 8.97% for 2020, in the previous survey, they estimated a fall of 8.16%; For 2021, specialists expect the country's Gross Domestic Product (GDP) to be 2.79%, a figure higher than the one estimated in the last survey, which was 2.51%, on the other hand, according to analysis made in June, by the Central Bank, the Respondents expect inflation to reach a level of 3.31% by the end of this year, being higher than the 3.04% that was estimated during May.

GDP will be the result mainly of domestic economic conditions, according to 41% of analysts, and the weakness of the external market and the world economy, as estimated by 26% of respondents.

For 2021 it is considered that inflation will be at 3.55% and regarding the exchange rate, analysts predict that it will close the year at 22.78 pesos per dollar, trading lower than previously in May of 23.30 units per dollar.

Despite the fact that today the trade agreement with the United States and Canada came into operation, there is not a single specialist consulted by Banco de México who considers this to be a good time to invest. In addition, 94% of those surveyed clearly state that it is a bad time to Invest in Mexico, the highest proportion with that idea since April 2020, when all of the analysts consulted warned that it was a bad time.

Expectations about the level of the exchange rate of the peso against the US dollar for the end of 2020 and 2021 decreased compared to the previous month.

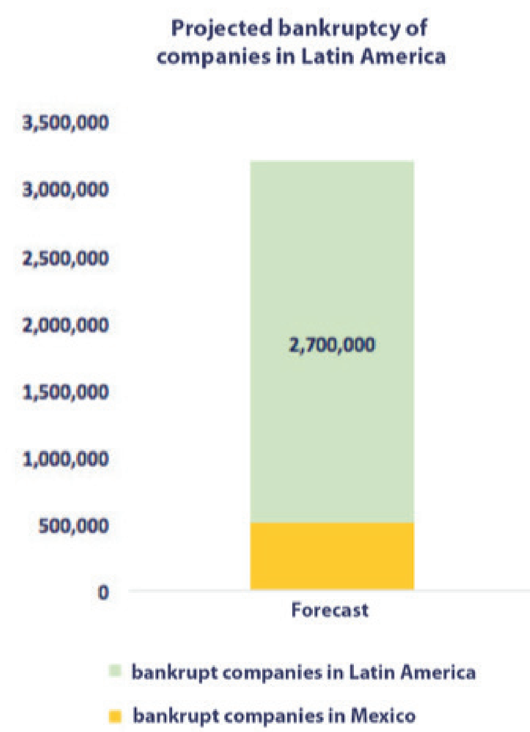


ECLAC forecast

ECLAC estimates that 500,000 companies would be closed in Mexico due to the COVID-19 crisis, it also affirmed that the country has strategic companies that must be supported with active industrial and tax policies. For example, Aeroméxico and companies in the tourism, automotive and manufacturing sectors, among the most important, in order to defend existing capacities and jobs.

It was also reported that the most affected sectors will be retail and wholesale trade, tourism, as well as the manufacturing industry, particularly auto parts, electronics, furniture and footwear and the cultural industry, the latter in which it is known that shows is a subject of enormous importance for the country. Finally, it is mentioned that the destruction of jobs and companies should be avoided. ECLAC recommended extending the terms and scope of liquidity and credit measures; co-financing of payroll; direct transfers to self-employed workers and support to large companies in strategic sectors severely affected by the crisis of the COVID-19 pandemic.

The most worrying scenario is that the number of firms in a situation of disappearance and bankruptcy increases, since the estimated figure is 2.7 million in Latin America and 500,000 in Mexico, what is proposed in this sense is to defend the capacities of workers, in addition, to protect jobs and protect trades.



Unemployment

The labor crisis has begun to generate lags in different regions around the world. In several cases the problem was due to the financial situation of the companies and their cash flows, considering that they were not large enough to cushion the cessation of activities for more than a month and in other cases, because their investment leverage was of high risk, an act that generated a considerable increase in losses at the time of changes in the value chains.

According to Manpower and a survey carried out in 43 countries, it shows that the lack of dynamism of the economic sectors and the interruption of the value chains do not allow the workforce to be regularized again, which makes it unattractive to hire new personnel, and in other cases have chosen to reduce staff in order to keep their businesses more stable and profitable. They also consider that it is not possible for hiring to be regulated again this year or the next, they expect hiring of staff to return to normal until 2024. The strongest hiring prospects are reported in India, the United States, China and Taiwan, in contrast the weakest labor markets are expected in Singapore, Costa Rica, Colombia, Peru and South Africa.

The OECD has presented its expectations of the member countries of the organization, in which Mexico stands out along with ten other countries that may present a higher increase in their unemployment rates. This forecast is correlated to the fact that there is an increase in the number of infections by COVID-19, prolonging the quarantine more, therefore, causes the unemployment prospects worldwide to increase, due to this situation the OECD has mentioned two tentative scenarios for unemployment:

Scenario 1: If there is no second wave of infections, unemployment would reach 10% in the member countries, with an apparent recovery by 2021.

Scenario 2: If there is a second wave of infections, unemployment can reach 12% and a recovery cannot be expected until after 2021.

For some countries, unemployment could generate abysmal problems, since the progress that it has generated with public policies and programs to reduce poverty would be too much surpassed, because in just a few months years of progress would be lost to reduce this problem.

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In other countries such as Japan and South Korea, the phenomenon of their unemployment rates is mainly due to the reduction of the workforce, that is, they do not have enough workforce and in both cases the problem is due to a decrease of labor participation on the part of women, caused by pressures on wage inequalities among workers. In other cases, unemployment "favors" already unemployed former workers, since they have insurance in the event of job loss. In the United States, the number of unemployment benefits has already added 47.2 million unemployment benefits since March when the confinement began.

Unemployment rate 2020		
	1st Semester	2nd Semester
Australia	7.1%	8.3%
Canada	12.3%	7.7%
France	7.8%	12.3%
Germany	6.2%	5.0%
Italy	7.8%	12.4%
Japan	2.9%	2%
South Korea	4.3%	4.8%
Mexico	7.2%	5.9%
Spain	14.5%	19.2%
UK	3.9%	11.7%
U.S.A	11.1%	10.4%

Mexico

After almost 120 days of confinement in Mexico, the unemployment rate has not been specified with a total data since the first quarter of the year when it registered at 3.5%; However, so far there is only an estimate of how many percentage points it would reach in the second quarter of 2020.

The forecasts for unemployment in Mexico tend to be increasingly worrying, as the OECD expects that the outlook for expectations about Mexico is between whether there is a new outbreak of COVID-19, that is, a second wave of infections or if not there is such a phenomenon. The fact is that the Ministry of Health has taken a series of measures to reduce the number of infections, but this flattening is causing the unemployment curve to increase gradually and without a timely record, the effects of the pandemic are unknown.

First scenario. In the absence of a second coronavirus outbreak, the Mexican unemployment rate is expected to peak at 7.2% in the second quarter of 2020, to fall back to 5.9% by the end of 2021. This indicates that unemployment will remain with high percentages, since at least 9% of employers intend to reduce the workforce of their companies, some are simply expecting to bear the fixed costs and many others depend on the existence of the same consumption that was before the confinement.

Second scenario. If the phenomenon of a second outbreak occurs, trends similar to the previous ones are predicted, but with a peak in the unemployment rate of 7.5% in the fourth quarter of 2020. Based on the above and after observing the little dynamism in the Mexican economy in the reactivation of labor activities, there is still a certain rigidity in economic sectors that generate employment, to mention a few, SMEs are the most affected in this crisis and although the Federal Government has generated stimuli by providing greater liquidity, such as cutting Banxico's interbank rate from 7.50% to 5%, in addition, it was decided to provide loans of $25,000 pesos for small companies.

In Mexico it's required a more robust and effective incentives from the government, in order to help unemployment and thus the reduction of formally employed personnel.

The accumulated number of insured people to the IMSS who have been discharged since the beginning of the confinement in March is 983,084 of the formally employed personnel, the most affected individuals in this unemployment crisis are young people, women and regions with greater dependence on tourism.

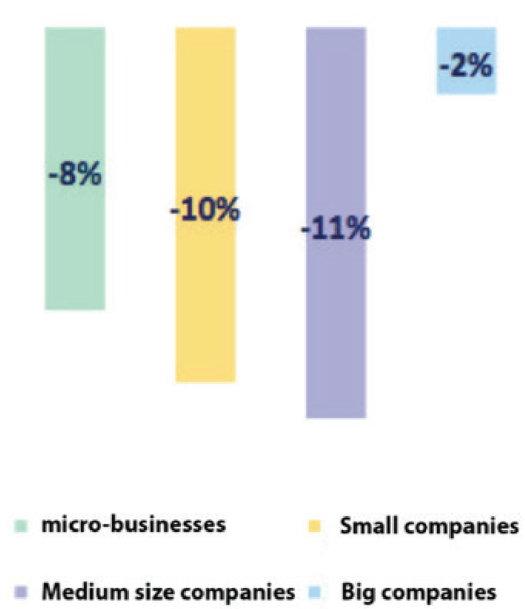
In the annual comparison of June 2020 versus June of the previous year, there is a loss of 868,807 insured to the IMSS, which represents a drop of 4.2% of workers in the formal sector. It should also be noted that, in just half a year in 2020, we have exceeded the number of unemployed registered in the crisis of 94 and the collapse of the Real Estate Sector in 2009.

Placing the COVID-19 crisis with 66,000 unemployed above the crisis of 2009, which in that year there was a loss of jobs was 678,438 jobs, but in 2020 the number of unemployed continues to increase due to confinement.

Within the hiring expectations, Mexico presents an unfavorable outlook, as the workforce for the third quarter of the year is expected to contract 9%, while the cut in these workforce will be mainly affected in medium-sized companies with a reduction of 11%; in small companies 10%; for micro-enterprises 8% and large companies a decrease of 2%.

People insured by the IMSS
(figures in million)

Percentage reduction in workforce



Inflation

According to data from INEGI, during the sixth month of the year, the National Consumer Price Index (INPC) increased 0.55% compared to the previous month, this increase was caused by the price of gasoline that began to have a rebound due to the fact that futures contracts begin to stabilize.

This caused annual inflation to accelerate in the first month of what is known as the new normal, therefore the annual rate of the INPC stood at 3.33%, which represents an acceleration of 0.49%, the forecast consulted with the 17 specialists of Reuters and had a mistake, which ensured that inflation for the sixth month was 3.20%, a situation that was not correct, since it is contemplated that the effect of inflation was due to the fact that Premium-type gasoline decreased 13.37% compared to June of 2019 but in its comparison with the prices of May an increase of 6.67%, INEGI reported that the underlying inflation which has the reason to eliminate the calculation of the goods and services of the most volatile prices had an increase of 3.71% compared to the previous month.

In the case of non-core inflation, this acceleration of 0.35% is due to the fact that the annual rate increased by

7.69% of agricultural products, so where fruits and vegetables have presented a greater increase in their prices, obtaining an increase of 13.14% while livestock had a record of 3.45%, finally energy prices and tariffs that the government authorized to cause an annual decrease of 1.90% due to the fact that energy companies have shown a negative rate of 4.57%. However, this does not limit the fact that rates will decrease, on the contrary, they increased by 4.17%

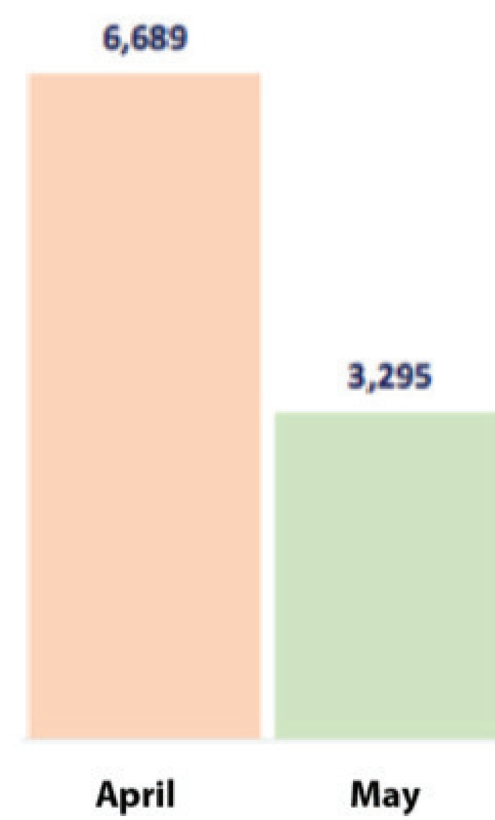
INFLATION	
INPC	3.33
UNDERLYING	3.71
NOT UNDERLYING	2.16
BASIC FOOD	3.14

Loss of 10,000 companies due to confinement

After almost 3 months of confinement due to the COVID-19 pandemic and with a clear economic contraction of almost double digits, the effects are beginning to start mainly to companies and businesses, which already have almost 10,000 registrations of outflow before the Mexican Institute Social Security (IMSS), according to this institution, in April 6,689 companies were terminated while in May the figure was 3,295 but it is still expected that for the June data, this trend will persist because the economic reopening is not giving the expected results for companies and businesses being the end of the Mexican economy.

In our country 5 out of 10 people work in informality, which is shocking compared to other countries is the fact that the pandemic has caused the closure of 30,700 stores and / or businesses, thus causing a brutal fall in income, and although the government placed loans of 25,000 pesos, this support has not been enough from the Federal Government, after the Telephone Survey of Occupation and Employment (ETOE) in April had been reduced the number of employers in Mexico to 2.3 million, while in May of last year the employers totaled 2.6 million, that is, 300 thousand people have stopped providing employment to millions of workers.

Companies that unsubscribed from the IMSS



Finally, the Institute for Industrial Development and Economic Growth expects that around 500 medium and large companies will close their doors once the final counting of the damages of the pandemic begins.

Petroleum

The advance of the recovery in oil futures contracts after the historical fall of Black Monday in April 2020 and in the hands of OPED + strategies to reduce oil production, it seems that the demand for this raw material will not have a more resounding progress, due to the fact that the value chains are pauses, it also seems to be the case that the COVID-19 contagion curve begins to carry out its second wave of contagion.

Currently, PEMEX's financial problem and the hedging performance strategy will be the most favorable scenario. The advance of the WTI is due to the fact that the American economy has begun to reduce the number of unemployed while, for the United Kingdom, an outlier is presented because it had not presented such a high unemployment rate, the panorama of the reactivation global economy, is far from being what it was before COVID-19.

The exchange rate

The prospects for the exchange rate to return to a variance of between 18 and 20 units per dollar. The effect of providing greater liquidity with the reduction of the interest rate puts pressure on the depreciation of the currency regarding the situations of uncertainty.

Some currencies in the region, such as Mexico, also suffered the effect of negative economic expectations on oil prices. The US mix WTI fell at the close of the peso -2.86% to 40.09 dollars per barrel.

The Mexican peso closed operations this Thursday with losses against the dollar. The exchange rate ends the day at 22.08 units per greenback against a close of 22.0120 units yesterday, with Banxico data. The local currency and other emerging markets were influenced by the recovery of the dollar. The data of the Gross Domestic Product (GDP) of the United States in the quarter raised the appetite for dollars as a refuge.

The local currency and other emerging markets were influenced by the recovery of the dollar, after several sessions of weakness. The data of the Gross Domestic Product (GDP) of the United States in the quarter raised the appetite for dollars as a refuge. The US economy contracted in the second quarter of the year with a historical rate of 32.9% as a consequence of the pandemic. This pressure was compounded by applications for unemployment support.

While for the Latin American scenario, in the case of the Chilean economy, it is presented that its local currency, such as the Colombian peso and together with the Peruvian sol, fell by about 0.50% due to a rebound in the greenback. For the Mexican currency, the session represented a loss of 6.80 cents, equivalent to a variation of 31%.

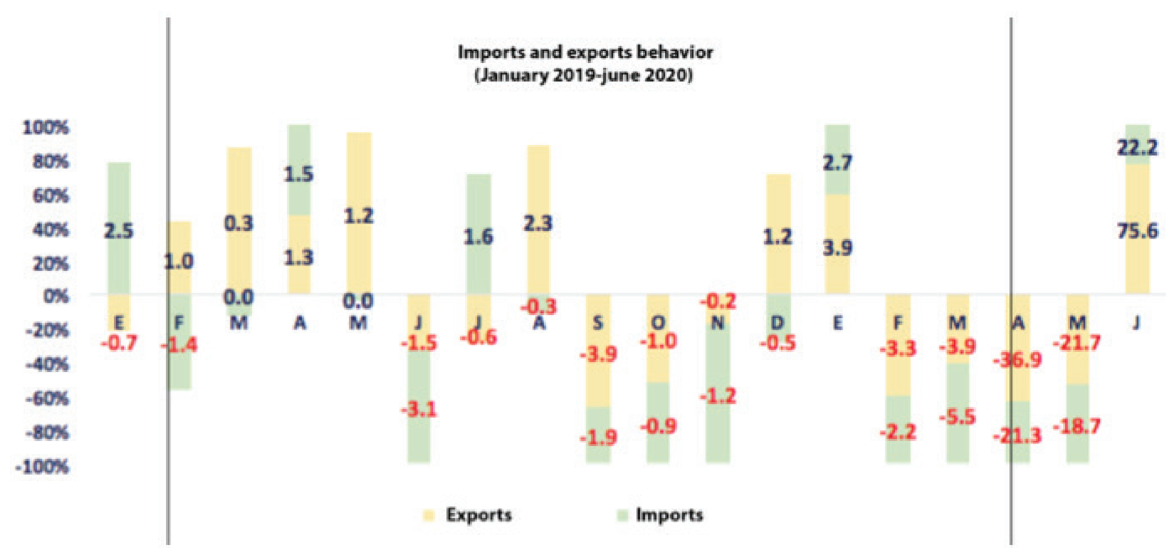
Balance of trade

During the sixth month of the year, the trade balance reached the highest surplus on record, thanks to the rebound in exports in the context of the economic reopening, despite this, foreign sales are still below the levels recorded a year before.

Timely foreign trade information for June 2020 indicates that a trade surplus of 5.547 million dollars was registered, the highest positive monthly balance since 1991 when it began its registration. In the first six months of this year, the trade balance presented a surplus of 2.659 billion dollars. Although the figures in the annual comparison of exports and imports are still negative, we observe a recovery relative to April and May, driven by the restart of economic activities, commented Juan Carlos Alderete, director of economic analysis at Banorte.

In the sixth month of the year, total merchandise exports reported a monthly increase of 75.6% based on figures adjusted for seasonality after four consecutive months of decline, which was the result of increases of 76.9% in non-oil exports and 49.7% in oil companies, informed INEGI.

On the other hand, total imports also showed a monthly increase of 22.2% with series adjusted for seasonality, which was derived from growth of 23.1% in non-oil imports and 11.1% in oil companies. By type of good, there were monthly advances of



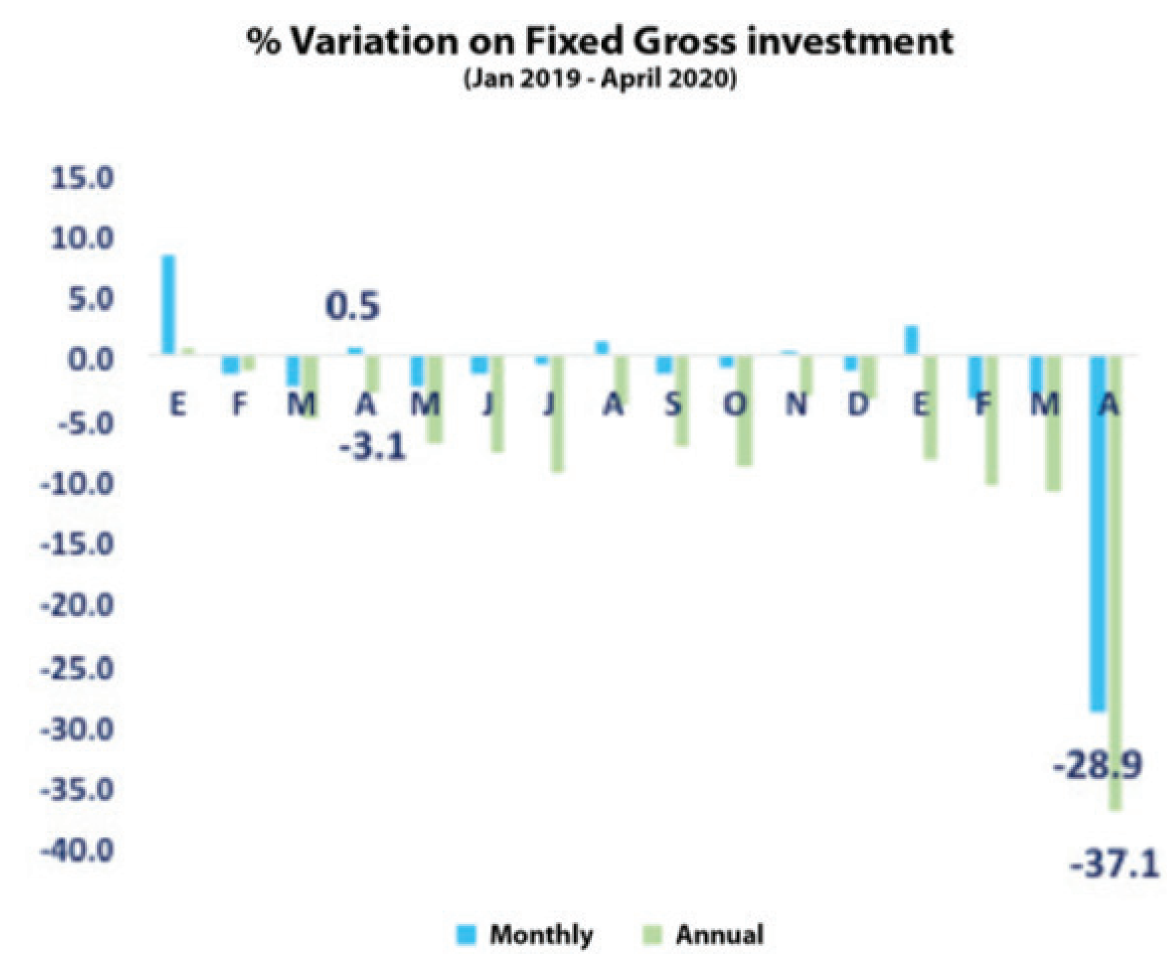
5.9% in imports of consumer goods, 27.2% in those of intermediate-use goods and 5.1% in those of capital goods.

Gross Fixed Investment

After collecting the data from the first months of confinement, during April the magnitude of the crisis began to be witnessed and not only due to the health sector, but also the effect of uncertainty between the economic components, as a measure of flattening the contagion curve, the strategy of the total unemployment of manufacturing activities and construction as they are not considered essential, an act that deepened the fall in investment, since the latter had a consecutive fall since February 2020. Gross investment, which represents the expenses made in Machinery and equipment of national and imported origin, as well as Construction, which are the two items that make up this indicator, showed a fall of 28.9% in real terms in April, compared to the immediately previous month. In annual comparison, it contracted by 37.1%, in terms of components, construction was the one that had the greatest fall, being 30.9%, while total Machinery and equipment was 25.1%, therefore, in annual comparison, total machinery and equipment fell 38% while construction registered a 36.3% drop in relation to the same month last year, with seasonally adjusted series.

Index of Private Consumption in the Internal Market

The monthly indicator of private consumption in the domestic market has presented a

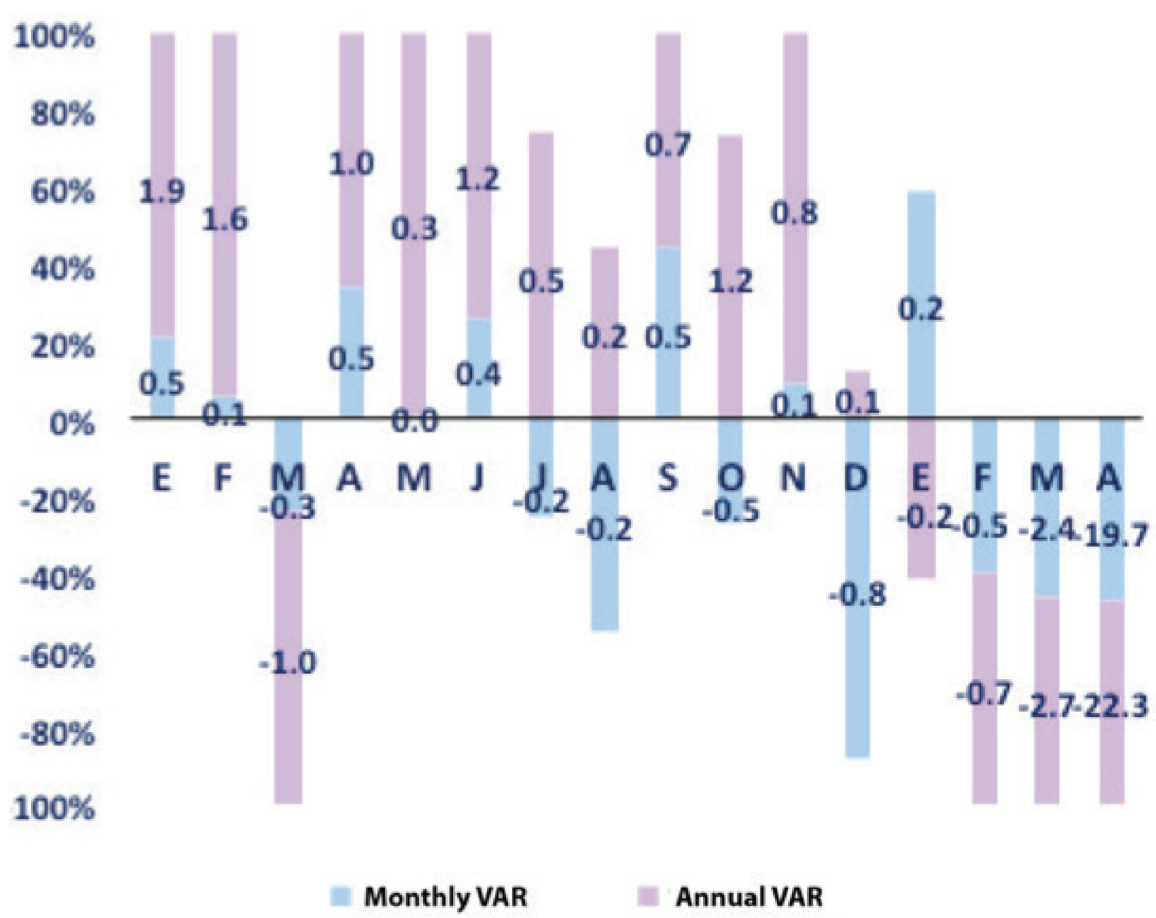


real fall during the fourth month of the year of 19.7% compared to the immediately previous month. At the beginning of April, contingency measures were carried out, making it the first month of confinement by covid-19 in Mexico.

Among its components of the index is the consumption of goods of imported origin, which had a decrease of 21.3%, in addition, goods and services of national origin decreased by 19.1%, respectively, already with seasonally adjusted data. It is important to recognize that the low economic dynamism was the cause of this fall in the index, however, also, due to the pause of labor and commercial activities throughout the country.

In annual comparison, the index presented a reduction of 22.3%, that is, the components within this index, such as imported goods fell 30.6% and national goods and services 21.2%, finally, service expenses fell 22 %, while goods decreased to 20.3% compared to last year.

Monthly Indicator of Private Consumption in the Internal Market



EFFECTS OF COVID-19 ON FINANCIAL INFORMATION

TECHNICAL BULLETIN - INTERNATIONAL-2020.001

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With no doubt, one of the PANDEMICS that has unbalanced the world economy in the last hundred years is the SARS-Cov-2 coronavirus, which has caused the COVID-19 disease. Businesses around the world are facing lost revenue, not to mention the volatility of financial markets; In some countries, governments are announcing and implementing emerging actions, decrees and plans to financially and tax support various sectors of their economy; Therefore, it is necessary that we address the accounting details established in international standards regarding the financial effects of COVID-19.

GOING BUSINESS.- *IAS 1,* • Presentation of Financial Statements, establishes the Going Business Hypothesis, referring to the fact that management will evaluate the entity's capacity to continue operating; Similarly, the conceptual framework stipulates that if there is a need or intention to cease or liquidate the economic activity, the financial statements must be prepared on a different basis, describing it.

When evaluating the Going Business Hypothesis, all available information about the future will be taken into account, which must cover at least the following twelve months from the end of the reporting period, without being limited to such period; that is, the events that occurred after the reporting period and the issue of the report.

In the conclusions reached when evaluating the entity's ability to continue as a going business, significant professional judgment should be applied, and the amount of disclosures will depend on the facts and circumstances in which each entity is affected.

FINANCIAL INSTRUMENTS.– • As the spread of COVID-19 continues, the world is making massive adjustments to react to this outbreak. Although the outcome is unpredictable and conditions remain unstable and volatile, these adjustments or measurements may or may not have a direct impact on the accounting for financial instruments. IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, address the accounting treatment of financial instruments and related disclosures. Entities must take careful considerations to determine the most appropriate accounting treatment.

Assessing the impact of the COVID-19 outbreak on Expected Credit Losses (ECL) will require the application of significant judgments, especially since it is not directly comparable to other similar events that have occurred recently. Due to the level of uncertainty, the sensitivity of the judgments and estimates, the disclosures of the key assumptions used and the judgments made to estimate ECL, as well as the impact of support measures, will be of utmost importance.

Current vulnerability due to risk concentration and liquidity risks.

Institutions with concentrations of risk face a higher risk of loss than others.

Entities that have identified concentrations of activities in the areas or industries affected by the outbreak (such as the aeronautical, hotel and tourism industries) and that have not previously disclosed such concentration, because they did not believe that the entity was vulnerable to the risk of a severe impact in the immediate future, they must now reconsider including such a disclosure.

Similarly, liquidity risk has increased in the current economic environment. Therefore, the disclosures required under IFRS 7 in this area are expected to reflect changes in the entity's liquidity position, as a consequence of the COVID-19 outbreak. Entities should keep in mind that this disclosure should be consistent with their assumption assessment of the going business.

Regarding entities that will prepare interim financial statements, in accordance with

IAS 34, Presentation of Interim Financial Information, if the concentration of risk and liquidity risks have changed significantly from their most recent annual financial information , they must disclose the information mentioned above in their financial statements at intermediate dates.

Classification of assets and evaluation of the business model: impact of sales.

Any deterioration in the credit quality of the debtor or issuer of a financial asset, as a result of the COVID-19 outbreak, could cause entities to choose to dispose of investments classified as held to obtain the contractual cash flows ("amortized cost"), In accordance with IFRS 9.

Similarly, an increase in the frequency and value of sales in a specific period would not necessarily fail to meet the objective of holding financial assets to collect the contractual cash flows if the entity can explain the reasons for such sales and demonstrate why the frequency and value of sales would be lower in the future. For instance, if due to a significant drop in demand for the entity's products or services as a result of the pandemic (for instance, in the case of airline tickets or hotel events), the entity will face a crisis of temporary liquidity, the sale of their financial assets classified as "Amortized Cost" may not be inconsistent with the objective of that business model.

It should be remembered that reclassifications derived from a change in the business model to manage financial assets are expected to be infrequent and that they occur only when the entity starts or stops carrying out an activity that is significant to its operations (for example, the acquisition , sale or closure of a business line). A change in the intention to hold specific financial assets (even in circumstances of significant changes in market conditions) represents no change in the business model.

Modifications to Contracts

The affected entities could face cash flow problems as a result of the interruptions generated in their operations, the increase in their operating costs or the loss of income. These entities would need to obtain additional financing, modify the terms of their existing debt recognition contracts, or obtain exemptions if they ceased to comply with the provisions of their debt recognition contracts. In such a case, entities would have to consider the guidelines established by IFRS 9 to determine whether any of the changes in their existing contractual arrangements represents a substantial modification or a possible termination of the contract, since in both cases there would be accounting implications.

With respect to financial liabilities, in summary, an entity should write off the liability if the related cash flows are extinguished (that is, when the obligation specified in the contract is canceled or expires) or if the terms and conditions of the instrument undergo substantial changes.

Hedge Accounting

Business transactions could be postponed or canceled or could be carried out in significantly lower volumes than originally anticipated. If an entity designates a transaction, such as the sale of goods or the issuance of expected debt, as a forecasted hedged transaction in a recognized cash flow hedge in accordance with IAS 39, Financial Instruments: Recognition and Measurement, or IFRS 9 , the entity will need to consider whether the transaction is still a ¨highly probable forecast transaction¨. This includes determining whether the volume or amounts involved will be less than anticipated or whether the forecasted transaction is no longer likely to occur.

In other words, if the COVID-19 outbreak affects the probability that the forecasted covered transactions will occur during the designated time period on the hedge starting date, the entity will need to determine whether it can continue to apply hedge accounting to the forecasted transaction or a part of it.

Assessment of expected credit losses (ECL)

The fact that large-scale business interruptions occur that could lead to liquidity problems for certain entities, could also have repercussions on the credit quality of other entities along the supply chain; This will also have collateral effects on the portfolios of the retail sector (mortgage loans and consumer products), since many companies will have to reduce their staff, what in turn, will cause a considerable increase in the number of unemployed. The deterioration in the credit quality of loan portfolios, and also, for instance, accounts receivable, will have a significant impact on the measurement of ECL, as a consequence of the COVID-19 outbreak.

Measurement of ECL should be done in such a way that it reflects an unbiased and weighted probability amount, determined by evaluating a range of possible outcomes, and reflecting the value of money over time. Entities should exercise their judgment and make every effort to consider all reasonable and supportable information that is available on past events, current conditions and projections of future economic conditions. Due we are facing an unprecedented situation, it will be of utmost importance that entities disclose transparent information about the assumptions they used to measure their ECL and that they include disclosures about the sensitivity of the assumptions considered.

The COVID-19 outbreak could change the risk characteristics of certain credits or accounts receivable since it is possible that the respective debtors or clients have operations or are in areas that have been affected or are more susceptible to being affected by such outbreak. Therefore, entities should consider segmenting or redefining the segments of their portfolios or sub-portfolios.

Individual and collective evaluation of credits, accounts receivable and contractual assets.

Due to the anomalous circumstances that we are experiencing, it could take time for entities to detect real changes in the risk indicators of a specific counterparty. In order to accelerate the reflection of changes in credit quality that have not yet been detected at the individual level, it may be appropriate to adjust the ratings and the non-compliance probabilities collectively, considering the risk characteristics, such as the type of industry or geographic location of debtors. For instance, a supplier supplying products or services to the aeronautical industry may have to consider an increase in the probability of non-compliance of its customers, regardless the specific events identified at the level of each individual counterparty.

When estimating the probability of non-compliance and ECL, entities should consider the effect of any state aid plan that is intended to support their clients through various measures (for instance, refinancing measures or other forms of financial support, including guarantee).

Disclosures

Due to the inherent level of uncertainty and the sensitivity of the judgments and estimates, the disclosures of the key assumptions used and the judgments made when estimating ECL are of utmost importance, especially as such key assumptions, judgments and estimates may have to undergo significant changes, compared to the key assumptions, judgments and estimates applied in the last annual financial statements.

Likewise, entities should include disclosures that enable users of financial statements to understand the nature of any material support offered to their debtors, including the measures applied by governments, and how they determined whether such measures constituted a forbearance, if they generated a substantial modification in the contract, its effect on the classification by stages and its impact on the ECL in general.

Assessing the impact of the COVID-19 outbreak on ECL will require the application of significant judgments, especially since it is not directly comparable with other similar events that have occurred recently. Due to the level of uncertainty and the sensitivity of the judgments and estimates, the disclosures of the key assumptions used and the judgments made to estimate ECL, as well as the impact of support measures, will be of utmost importance.

•IMPAIRMENT ASSESSMENT. - An asset is considered impaired when the entity is not capable of recovering its book value, either through its use or sale.

As the COVID-19 crisis evolves, conditions become less predictable; at this stage, Management must exercise significant judgments to present reasonable assumptions that reflect the conditions existing at the reporting date, for the purposes of impairment tests.

Entities should include detailed disclosures about assumptions and sensitivities.

IAS 36, Impairment of assets, requires entities to assess, at the end of each reporting period, whether there are indications of impairment in their non-financial assets. The deterioration test should only be performed if there is any indication of deterioration.

With the recent events related to the COVID-19 outbreak, there is information, such as the fall of the stock markets and the price of commodities, the reduction in market interest rates, the closure of manufacturing plants, the store closures, lower demand and the sale prices of goods and services, etc., which indicate that an asset could be impaired.

Events after the reporting period and the information obtained after that period should be considered in the evaluation of impairment indicators only if they provide additional evidence to the conditions that existed at the close of the reporting period.

The more uncertain the economic environment, the more important will be for entities to provide detailed disclosures about the assumptions used, the evidence they relied on, and the impact of the change in their key assumptions (sensitivity analysis).

• GOVERNMENT GRANTS. - IAS 20, when addressing the Government, refers to the government itself, but also to government agencies and similar organizations, being local, regional, national or international, in such a way that government aid is the actions carried out by the public sector to provide specific economic benefits to an entity or type of entities, which are selected under special criteria implemented by the government.

Examples of cases are non-governmental organizations that financially help to:

- Development NGOs (DNGO), in carrying out activities related to the principles and objectives of international cooperation for development.
- Social Action NGOs, where their initiatives are aimed at aspects related to social services, such as the social inclusion of people with disabilities.
- NGOs for Human Rights (and Peace), their actions are focused on the defense of Human Rights and / or the report of violations committed, such as International Amnesty or Save the Children, are classic examples.
- Environmental NGOs, those that carry out awareness-raising activities in favor of the environment and sustainable development, such as Greenpeace.

Thus, government grants are government aid, through the transfer of resources to an entity in exchange for past or future compliance with certain conditions related to the entity's operating activities.

There are asset-related grants, which are government grants which concession implies that the recipient entity must purchase, build, or otherwise acquire fixed assets. Additional conditions may also be established restricting the type or the asset placement, or the periods during which they must be acquired or held.

There are also income-related grants, which are government grants that are different from asset-related grants.

Forgivable loans refer to those that the lender (the government) agrees to waive reimbursement, under certain conditions established between the parties.

All these activities have been stopped by COVID-9, as it is a global situation, which immobilizes all actions aimed at performing the subsidies referred to in this IAS 20.

• INCOME TAX. - Although each country is autonomous in the imposition of fiscal measures, there is a generalized fiscal position: tax deferral. We have observed that governments have given benefits in support of subsidies to entities, in order to reduce unemployment and avoid a major economic crisis. But the truth is that the government lives of taxes and rather than supporting the reduction of taxes, they are postponing payment dates so that the obligation to pay the tax in a longer period is fulfilled, but ensuring that collection is not reduced.

This is how we have to analyze whether if according to IAS 12:

1. An entity is obtaining tax benefits that allow you to deduct certain payments and that will involve a deduction: a deferred asset, short or long-term asset;

2. Its income decreased to the point that losses or tax credits must be used;

3. Its taxes were postponed and, at stake with inflation, income tax must be provisioned, but discounting it at present value (even if it is not described in the standard).

Of course, each scene depends on the figures and state in which the company is, but it is clear that IFRIC 23, which was previously considered by a few, will now be very useful to analyze this type of uncertainties.

• LIABILITIES DERIVED FROM COVERAGE AND INSURANCE CONTRACTS. - The health emergency, with the arrival of COVID-19, has brought about an unfortunate situation: estimating deaths. And it is that crude when we see it at the point of insurance entities, because although IFRS 4 has as its scope an endless number of insurance contracts, the truth is that they are responding earlier than they had planned in terms of deaths. We can note that, as for other types of insurance, the insured had a benefit because the risk of claims of all kinds decreases in case, but it is not so favorable as to bear the cost of the procedure of this type of death.

The foregoing may conclude that an entity must change the method of measuring liabilities, future investment margins and asset impairment (see paragraph 27 IFRS 4), as the economic context has changed significantly as a result of the pandemic. Although changes in accounting policies must be made retrospectively (re-express previous financial information), the reality is that it should be treated as a change in future policy (as if it were a change in estimate), since it is the product of new information and, according to paragraph 22 of IFRS 4, "the change would make the financial statements more relevant, but no less reliable, for the economic decision-making needs of users, or more reliable, but no less relevant to cover those needs. "

• INVENTORIES IAS 2. - One of the areas that require attention, due to the Covid-19 effect, is the valuation of inventories, since it is within the current assets of the entity, and that IAS 2 indicates that these Inventories should be measured at cost or Net Realization Value (NRV), whichever is less.

Each entity must analyze whether there is a need to reduce its inventories to the NRV. These reductions of inventories to NRV may have their origin in the little movement in its inventory, in the obsolescence of the inventory due to lower sales than expected, in the increase in the costs of raw materials, labor, etc.

When disaggregating inventories, in accordance with IAS 2, into classifications such as merchandise, raw materials, materials, work in progress and finished products, such classifications are attributed to the specific activities of the entities, commercial, industrial or services that have suppliers of different kinds, of different amounts in the supply, which affects the amount of their liabilities and their cash flows.

With the effect of the pandemic, it is important for the entity to inform users regarding the measurement bases that have been used in the financial statements, -historical cost, current cost, net realizable value, fair value or recoverable amount-, and that the basis on which an entity prepares the financial statements significantly affects the analysis carried out by users.

Furthermore, when deciding whether a particular accounting policy should be disclosed, management will consider whether the disclosure will help users understand how transactions and other events and conditions are reflected in the performance and financial situation, due to disruption. Each entity will consider the nature of its operations, and the policies that users of its financial statements would expect to be disclosed for that type of entity.

Disclosure of particular accounting policies will be especially helpful for users in this specific situation of disruption, when they are selected from the alternatives allowed in IFRS. An example is to disclose information about whether an entity applies the fair value or cost model to its investment properties in times of inactivity, including the options chosen by management among the different policies allowed. For example, IAS 16 requires the disclosure of information about the measurement bases used for the different classes of property, plant and equipment, which affect their immobilization.

This is relevant because fixed indirect production costs are assigned based on the normal production capacity of the facilities; If an entity's production levels are abnormally low, inventory costs should be reviewed to ensure that fixed production overheads not assignable to inventory are recognized in the Statement of Comprehensive Income in the period in which they are incurred.

Moreover, the operational efficiency of the entity must be taken into account, which refers to the degree of activity with which the entity maintains its operating levels in an adequate way, it serves the general user to evaluate the levels of production or performance of resources to be generated by the assets used by the entity, and includes financial reasons, such as the reasons for short-term operating activity, including inventory turnover, which is impaired due to the aforementioned pandemic.

Of course, there are other effects on inventories due to the closure of entities, such as: their care to avoid being damaged or becoming obsolete; its safekeeping in adequate facilities; the cost of storage, if the premises are not owned; adequate surveillance to prevent theft, etc.

•PROPERTY, PLANT AND EQUIPMENT- The main impacts of IAS 15 and 23 are:

- Possible impairment of assets, as there is a decrease in the flow of income projected by management, as well as in the budgets prior to Covid19;
- Interests that were capitalized under IAS 23, since the asset is not under development due to the quarantine or financial problems of the company, must now be recorded at expense;
- In the case of assets that were depreciated by units produced, a variation is generated in the depreciation projected before Covid-19;
- Fewer resources for asset maintenance could generate a shorter useful life.

•IFRS 16 LEASES.– For the lessor .- In some countries, policies are being implemented to support economies; In this sense, when receiving payments from the lessee, it must assess whether the payment meets the definition of a government subsidy (IAS 20) to, if applicable, prepare an impairment test on its asset for right of use; now, if the payment received by the lessee meets the definition of modification of the contract and this modification is contemplated in the conditions of the contract, the accounting treatment will depend on the changes in the facts and circumstances that occurred and, where appropriate, consider the payment as a negative variable payment recognized in the result (38-b).

For the Lessee.- In the first case above, if there is a government subsidy, it must be considered whether this event represents the preparation of an impairment test on its asset by right of use; If the payment made is contemplated in the terms and conditions of the contract, then the modification must be recognized, reallocating the consideration, revaluing the lease term, re-estimating the lease liability and adjusting the value of the asset by right of use and if this event represents an indication that justifies the preparation of an impairment test on the asset.

Therefore, it is essential to evaluate carefully the conditions and terms of the contracts, especially any FORCE MAJEURE clause; likewise, if the modification to the lease requires the remeasurement of assets or liabilities for the adjusted discount rates, considering the lowering of interest rates.

•PROVISIONS OF ONEROUS CONTRACTS. - The main effects in IAS 37 are:

- Quarantine could lead to breach of contract, as it is not possible to deliver goods or services that are not online.
- -Cancellation of it, especially by the Government Sector to the Private Sector.
- Decrease in income or increase in costs.

• MEASUREMENT OF FAIR VALUE. - Entities must consider the information about the COVID-19 outbreak that market participants had or could have known at the reporting date, in order to measure fair value at the measurement date.

IFRS 13, Fair value measurement, states that the fair value measurement is based on the market, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

Non-observable data should be used to measure fair value, to the extent that no observable data is available. However, the objective of fair value measurement remains the same: to determine a price.

An increase in market volatility is to be expected in 2020; the data is still quoted prices in an active market and is still observable; the increase in volatility should not modify the way in which fair value is measured at the measurement date.

Although volatility in financial markets could suggest that prices are irregular and do not reflect fair value, it would not be convenient for entities to discard market prices at the measurement date, unless they come from transactions that are not normal.

The impact on the fair value measurement would depend on the evaluation of the form, such as the outbreak, and any other measures adopted by certain governments at the reporting date would have affected the valuation assumptions of market participants at that date.

Therefore, entities should assess how this ever-changing information, up to the reporting date, could affect related valuation data of which market participants had or could have been made aware through their usual market research activities.

Depending on the facts and circumstances of each case, disclosures may be required to allow users to understand whether or not the COVID-19 outbreak was considered for purposes of fair value measurement. Users must understand the basis for selecting the assumptions and data that were used in the fair value measurement and related sensitivities.

Due to the constant evolution of the outbreak, it is important for entities to remember to consider the disclosure requirements of other standards that are relevant to fair value measurement, such as IAS 10, Events after the date of financial statements, with respect to subsequent events, when the value of the asset is significantly affected after the reporting date.

Likewise, paragraph 125 of IAS 1 requires the disclosure of key assumptions regarding the future, as well as other key sources of uncertainty in the estimate at the end of the reporting period, that have a significant risk of assuming material adjustments at book value of assets and liabilities during the following fiscal year.

• RECOGNITION OF INCOME. - Sales and income that the entity recognizes in the future may decrease as a result of the reduction in economic activity, as a consequence of the measures taken to control the COVID-19 outbreak.

It could also have an effect on the assumptions made by the Administration, when measuring the income from goods or services already delivered and, in particular, in the measurement of variable compensation. For instance, reduced demand could lead to increase expected returns, additional price discounts, reduced volume discounts, late delivery penalties, or reduced customer prices. All of this could affect the measurement of variable consideration.

The amount of variable consideration that an entity may include within the transaction price is limited to the amount for which it is highly probable that there will not be a significant reversal of accumulated income, once the uncertainties related to the variability are resolved.

The uncertainties related to the COVID-19 outbreak could also lead entities to modify contracts with their customers or to reassess whether they are likely to receive the consideration to which they are entitled.

In addition to the effect on ongoing contracts, entities should consider how uncertainties related to the COVID-19 outbreak will affect their future contracts with customers, which may require them to consider it carefully, for example, recoverability, concessions of price and independent selling prices.

It is possible that entities may need to apply significant judgment to determine the effect that uncertainties related to the COVID-19 outbreak will have on the recognition of their revenue; for example, in the estimates of the variable consideration (including the restriction) and in the presentation of the corresponding disclosures.

It should be mentioned that it is unlikely that such effects will be limited only to variable consideration. Decisions made in response to the COVID-19 outbreak (e.g., contract modifications, customer transactions during collectibility concerns, price modifications) could also adversely affect recognition and disclosures of current and future contracts.

• EVENTS SUBSEQUENT TO THE CLOSING OF FINANCIAL STATEMENTS. – The main impacts in IAS 10 are:

- Changing and uncertain global situation that invites to reevaluate the adequate disclosures of the impacts on the company;
- Regulatory measures, such as suspension of the restaurant sector, generate a decrease in income;
- Most of them generate no adjustments to the 2019 Financial Statements; however, it must be evaluated on a case-by-case basis and, in case of not generating adjustments, make the pertinent disclosures.

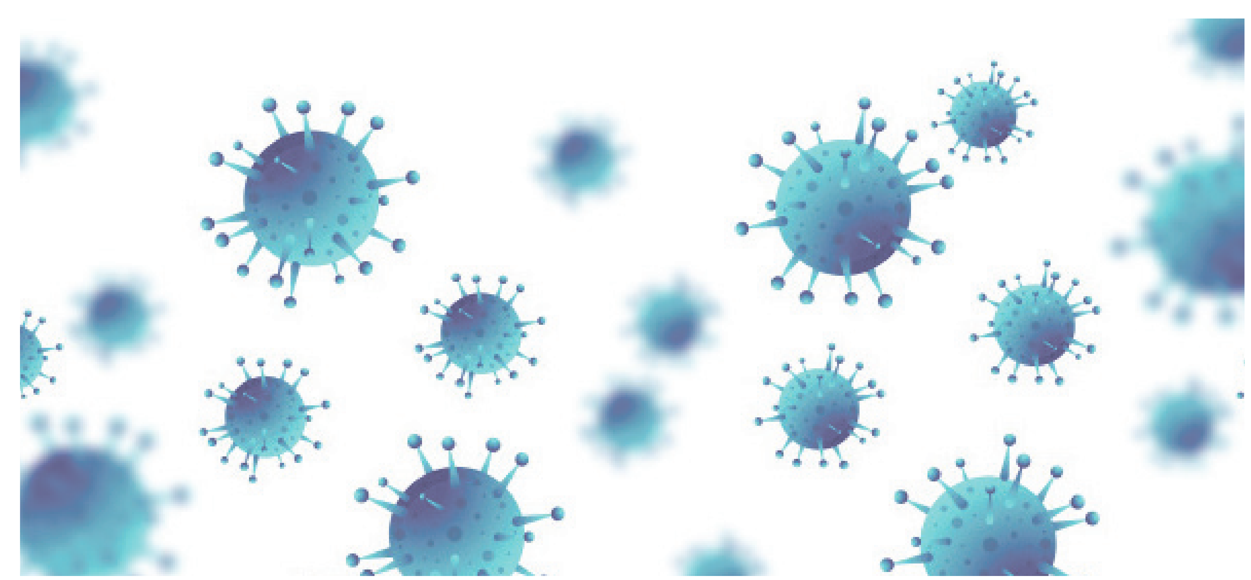
• OTHER DISCLOSURE REQUIREMENTS OF FINANCIAL STATEMENTS.- IAS 1, in addition to the disclosure requirements addressed in the previous sections, requires the disclosure of information about the KEY ASSUMPTIONS with respect to the future and other KEY SOURCE UNCERTAINTIES in the estimates at the end of the period that is reported that have a SIGNIFICANT RISK of material adjustments to the book values of assets and liabilities; These disclosures should help the reader of the financial statements to understand the judgments made by the entity's management about the future and the closing estimates.

Faced with the impossibility of disclosing the scope of the potential effects of the assumptions and uncertainties, the entity must disclose that there is a reasonable probability (high, medium or low measure) based on existing knowledge, that the results within the following fiscal year at the changing the assumptions and estimates could require a material adjustment to book value of the affected assets or liabilities.

Then, to the extent that the pandemic progresses and there is an obligation to present intermediate reports, the entities will be able to know the magnitude of the effects on a quantitative basis and reveal more accurately the impact on the book value of their assets and liabilities.

• OTHER ACCOUNTING ESTIMATES. – Taking into consideration all the aspects mentioned in the IFRS's, the administration is obliged, under these standards, to make the KEY ACCOUNTING ESTIMATES that include the assumptions about the future recovery of its assets, such as the net realization value of the inventories already mentioned in IAS 2, or the remaining useful life and residual value of long-term assets, in accordance with IAS 16 and 38, as well as IFRS 16, also already addressed in the previous points.

It is then time to analyze the impacts of COVID-19 on our financial information, to be in a position to issue our report with the disclosures that take place, applying IFRSs.



Coronavirus Considerations in Financial Information

Eduardo Cruz Torres Vidal

Global financial markets and the logistics of operations are meaningfully impacted due to Covid-19, this will result in accounting implications for many entities that are not informed of the situation; it is important to consider carefully, their own and unique circumstances and their risk exposure in the moment they analyze how their financial report could result affected by the recent events. For this reason, the disclosures of the financial statements in particular, must contain all the material effects resulting from Covid-19.

The above mentioned results in possible operational repercussions:

- Chain supply interruption
- Sales, profit and productivity reduction
- Goods and services prices increase or decrease
- Consumer demand change
- Workforce shortage
- Job layoff resulting in an impact on labor liabilities
- Collection problems (check the expected credit loss)
- Finance obtention or conditions renegotiation difficulty (check the possibility of holding short-term liabilities)
- Derivative financial instruments volatility
- Peso depreciation (check the monetary position) • Lease contract renegotiation
- Tourism and non-essential trips reduction

Leading to the necessity of assessing the basic accounting postulate of going concern fulfillment (Liquidity and need for total or partial closure of businesses assessment). To this effect, we present 2 objective parameters detailed below:

Parameter	Article	Disposition
Accumulated losses > 2/3 parts of the Social Capital	229-V	General Law of Commercial Corporations
1. Payment default to 2 or more different creditors: 2. Maturity of less than 30 days for a cost higher than 35% of total debts	10-I	Law of Commercial Bankruptcy
1. Payment default to 2 or more different creditors 2. Number of total assets to cover => 80% of debts Total assets = Cash, Banks, Investments and Clients, Securities <= 30 days	10-II	Law of Commercial Bankruptcy

In case of incurring in either of both assumptions, the 2 main consequences would be:

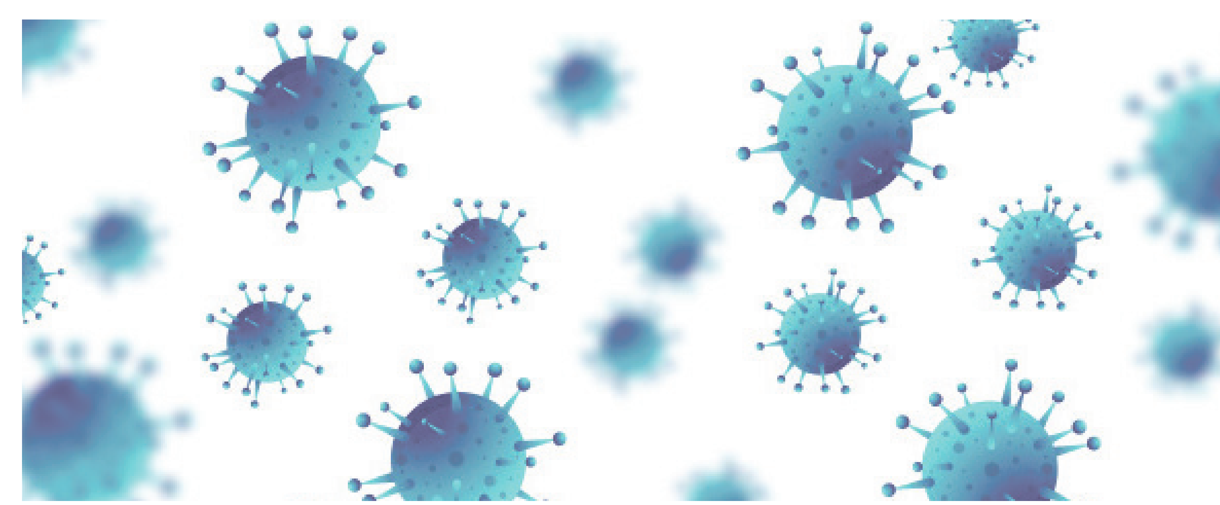
1. Need to revalue the balance sheet items to estimated performance or settlement values (NIF A-6 Paragraph 66). Such values are derived from the eventual disposition of assets or settlement of liabilities; in such cases, they should be considered net of disposal or settlement costs.

2. Obligation to disclose the risk of not continuing as a going concern, if financial statements are prepared based on Financial Reporting Standards (either annually or at intermediate dates), and the actions to be carried out to achieve its continuity, when applicable.

Entities should consider the increasing negative effects of Covid-19 on the global economy, however, it is also appropriate that they take into account the impact of the outbreak in accounting conclusions and related disclosures, but not limited to:

- Damage of non-financial assets (including capital gain). •Inventory assessment.
- Provision for expected losses.
- Measurement at market value.
- Provisions for onerous contracts.
- Breaches of agreements.
- Business in progress.
- Management of liquidity risk.
- Events after the reporting date.
- Hedging relationships.
- Insurance recoveries related to business interruptions.
- Benefits for termination of employment relationship.
- Conditions and modifications of compensation based on the performance of actions. •Considerations of contingencies for contractual agreements.
- Modifications of contractual agreements.
- Tax considerations (especially the recoverability of any deferred tax assets).

Thinking ahead, the impact of Covid-19 on the global economy and financial markets is expected to continue to evolve, therefore, entities should evaluate the accounting implications and disclosure considerations discussed above as the facts and circumstances change, so that in this way they can take the necessary forecasts and mitigate, as far as possible, the impacts that this crisis could generate on their accounting



Eduardo Cruz Torres Vidal

Entrepreneurs, the key to recreate new business models

Martin Rodríguez Sánchez

Due to the COVID-19 pandemic, that keeps the economic life of nations struggling, companies must strategically rethink their actions, aiming to a paradigms breakdown that allow them to leave the crisis behind, same actions that may be focused on changing business models or other schemes, as well as implementing more dynamic methodologies.

For the International Business Council (COINE), the integration of young entrepreneurs into companies as a strategy to recreate business models and production chains represents an important route of action, since this sector of the population brings innovation as well as alternative solutions that allow companies to have different vision to find the route to the "new normal".

Therefore, we decided that in each approach we had with entrepreneurs, we would detect exceptional cases to immediately integrate them into a group that we later established as "COINE Entrepreneurs Committee". In this Committee we include young people from the Instituto Politécnico Nacional (IPN), Escuela de la Bolsa Mexicana de valores, Universidad Nacional Autónoma de México (UNAM), Escuela Bancaria y Comercial (EBC), among other universities.

The main objective of this action was to have different ideologies in order to find innovative solutions to real business projects. On the one hand, young people were given the opportunity to integrate into work environments, but also to contribute to the recreation of the day-to-day business challenges.

With this, our work guides the assertiveness of entrepreneurs, because we believe that laying the foundations of their businesses represents a margin of greatest success to achieve growth, development and the profitability they seek, either in their individual projects, or in the project of the companies in which they participate.

Recently, we had the opportunity to analyze the study "ILO Observatory: COVID-19 and the world of work" made by the International Labour Organization (ILO), whose figures confirm that one out of six young people is unemployed due to the health crisis caused by the coronavirus pandemic.

It is time for us, as businessmen and leaders, to do what is necessary to allow new generations of young people to integrate into work environments, not to stop them, because otherwise there is a risk that the workforce will not find natural generational replacements.

As I previously mentioned, we have opted for business line recreation models, where we state alternatives to face the partial closure of activities and lack of both clients and businesses; However, within the same context we contemplate the active participation of entrepreneurs, who contribute their dynamics based on technology, new global trends and analysis.

With the progress achieved with this new scheme, we have been able to establish three levels of relevance to integrate entrepreneurs in the business sector, which are the following: 1) Integration into business projects, 2) Consulting and support, and finally 3) Reconfiguration of entrepreneurship project models.

Based on these premises, COINE has oriented entrepreneurship towards obtaining an optimal business trajectory, establishing priorities, critical routes, viability models, and leverage, which becomes more relevant in today's world.

Currently, the entrepreneurs participating with COINE are immersed in Food Supplements, Macroeconomic Analysis, Remote Recruiting Platform projects, and will soon help in a special project, creating a new Business Model for Gyms and Spas.

The integration of these young entrepreneurs to different areas is a strategic action that must be replicated in other productive sectors, since some of them, such as commerce, manufacturing, real estate and hotels it is where more outflow of young people have increased, being a wrong sign, because these are areas are those where the vision of young people can contribute the most.

However, there are other routes for the integration of entrepreneurs or young talent to companies. The confinement caused by COVID-19 brought with it for the companies little exploratory modalities like the Home Office, which immediately opened the door to new opportunities as well.

People talk a lot about the "Confinement", but it does not necessarily means it is a negative concept; let's see it all the way around, it brings opportunities such as hiring talent from different nations, opening new perspectives and business models for your company.

From COINE we are working on the creation of a platform that brings together a multifaceted network of professionals that allows companies to have the best experts, such as lawyers, accountants, economists, financial professionals and psychologists of any nationality, who are subject to results, providing greater dynamics in future labor relations.

With all these elements, COINE will continue designing schemes that provide guarantees to companies, in order to achieve a business evolution that renews their core business and strengthens them, so that they optimize expenses and as a result, become attractive to investors.

Find out more information about specific actions and entrepreneurship matters on www.coine.lat and in our social media.

TAX BENEFITS TO REDUCE THE FEE FOR THE SHARED PROFIT

Juan Antonio Castro

Derived from the fall in international oil prices and the financial environment of Petróleos Mexicanos (owned state enterprise) in its capacity as Assignee, on April 21, 2020, the Ministry of Finance and Public Credit announced in the Official Gazette of the Federation the "Decree granting tax benefits to the indicated taxpayers", which reduces from 58% to 26% the fee for shared profit for the year 2020, in the following terms:

"First article. A tax benefit is granted to the Assignees who are obliged to pay the fee for the shared profit referred to in article 39 of the Oil Income Law, consisting of a tax credit equivalent to the result of multiplying twenty-eight percent to the difference resulting from decreasing the value of the hydrocarbons (oil) extracted during the corresponding fiscal year, including the consumption of these products by the Assignee, as well as the losses due to spills or burning of said products, the amount of deductions provided for in article 40 of said Law.

The tax benefit referred to in this article may be credited against the fee for the shared profit that must be paid in March 2021, in accordance with article 39 of the Oil Income Law.

The tax benefit provided in this article may not exceed:

- I. The amount to be paid in the year, once the advanced payments actually paid out of this fee corresponding to the year 2020 have been credited, and the credit balances that proceed under the terms of the Oil Revenue Law have been compensated.
- II. The amount of 65 billion pesos, regardless of the provisions of the previous section.

The provisions of this article will not be applicable, if the annual statement for the fee for shared profit results in a favorable balance.

Second Article. A tax benefit is granted to Assignees who, in accordance with article 42 of the Oil Income Law, make monthly advance payments, consisting of a tax credit equivalent to the result of multiplying twenty-eight percent to the difference resulting from decreasing the value of the oil extracted in the period from the beginning of the year and until the last day of the month to which the payment corresponds, the amount of the deductions provided for in sections I and II of article 42 of said Law.

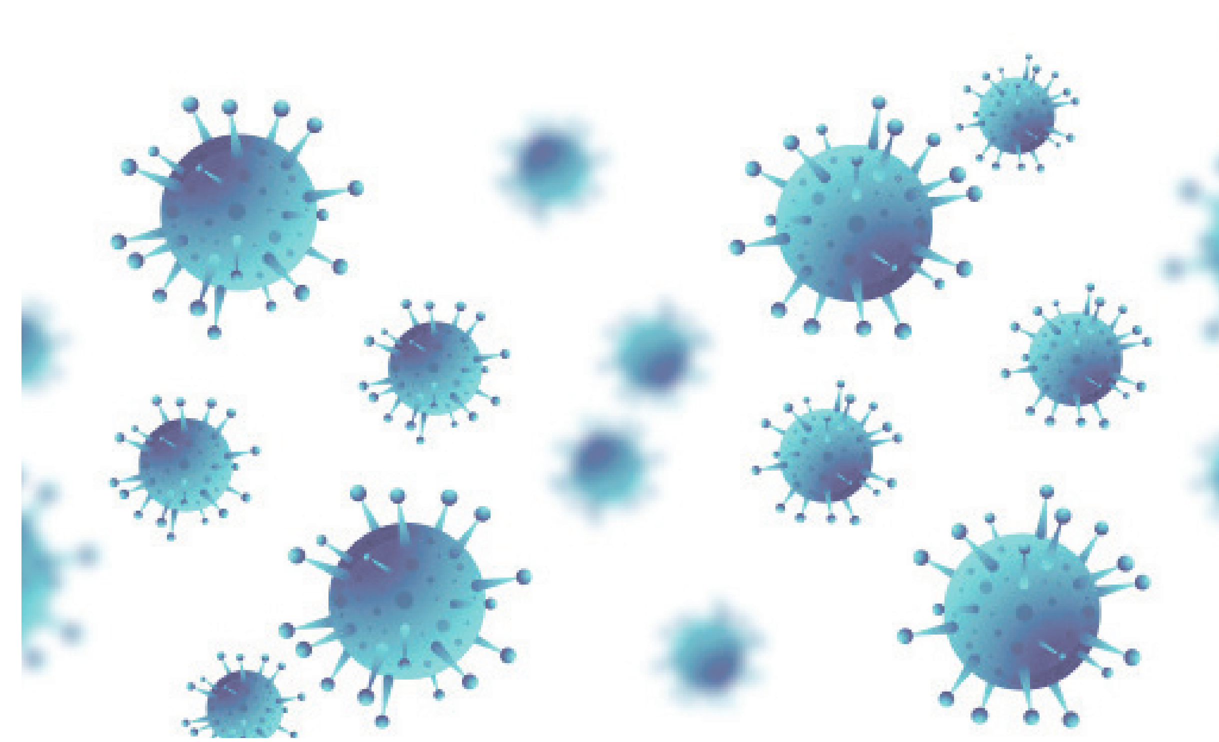
The tax benefit referred to in this article may be credited against the advance payment that results in the period corresponding to the payment of the fee for the shared profit under the terms of article 42 of the Oil Income Law.

The tax benefit provided in this article may not exceed:

- I. The amount to be paid in the period in question, once the provisional payments actually paid for this fee during the same period have been credited, and the balances in favor that proceed under the terms of the Oil Income Law have been compensated.
- II. The amount resulting from multiplying the number of months that comprise the period in question by the quotient of dividing 65 billion pesos by 12, regardless of the provisions of section II of this article.

The provisions of this article will not be applicable, if the statement of advance payment for the fee for the shared profit results in a favorable balance."

Despite the above, the Mexican federal government has not granted tax benefits to oil or other economic sector taxpayers; which contrasts with other countries in Latin America.



Business Environment

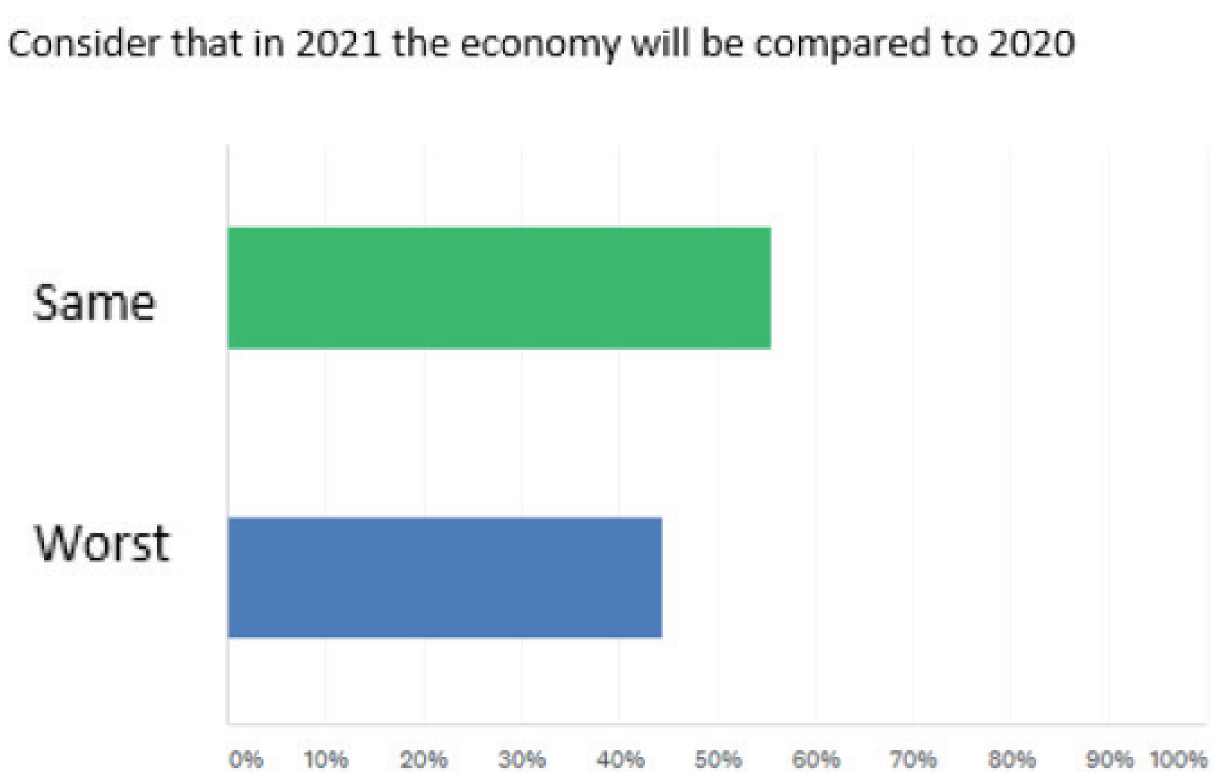
Despacho Muñoz y Asociados

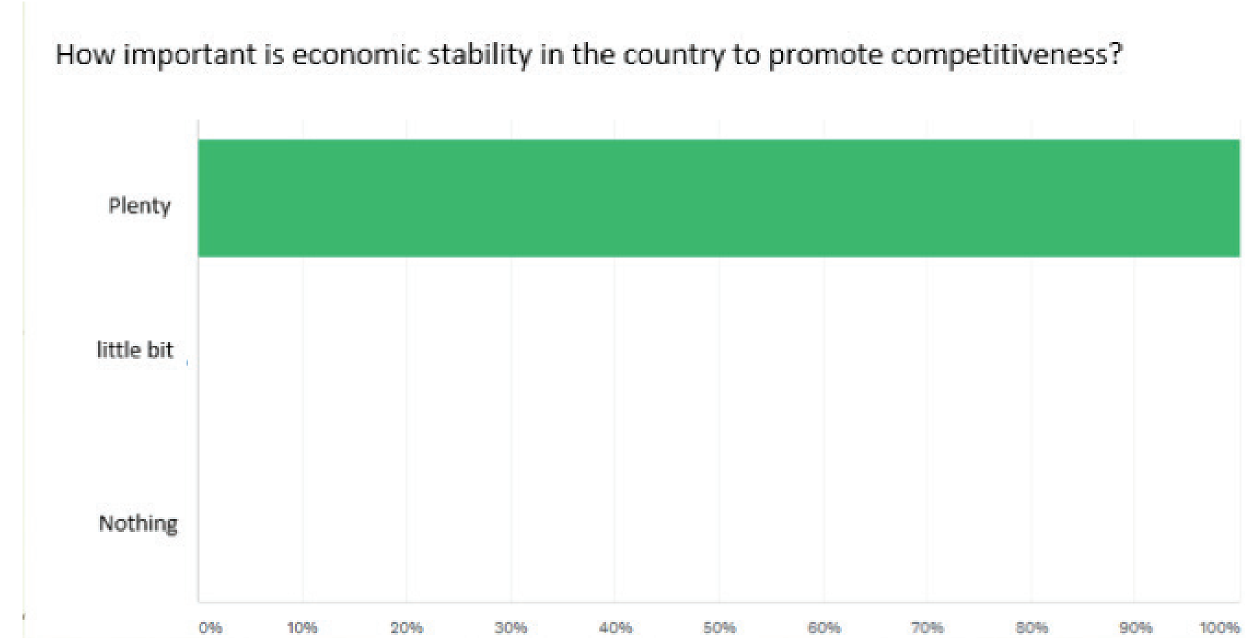
Introduction

Faced with the declaration of health emergency worldwide, companies have had to implement measures and contingency plans to face the multiple changes in the economic, social, organizational culture and commercial relationship; as well as business continuity strategies.

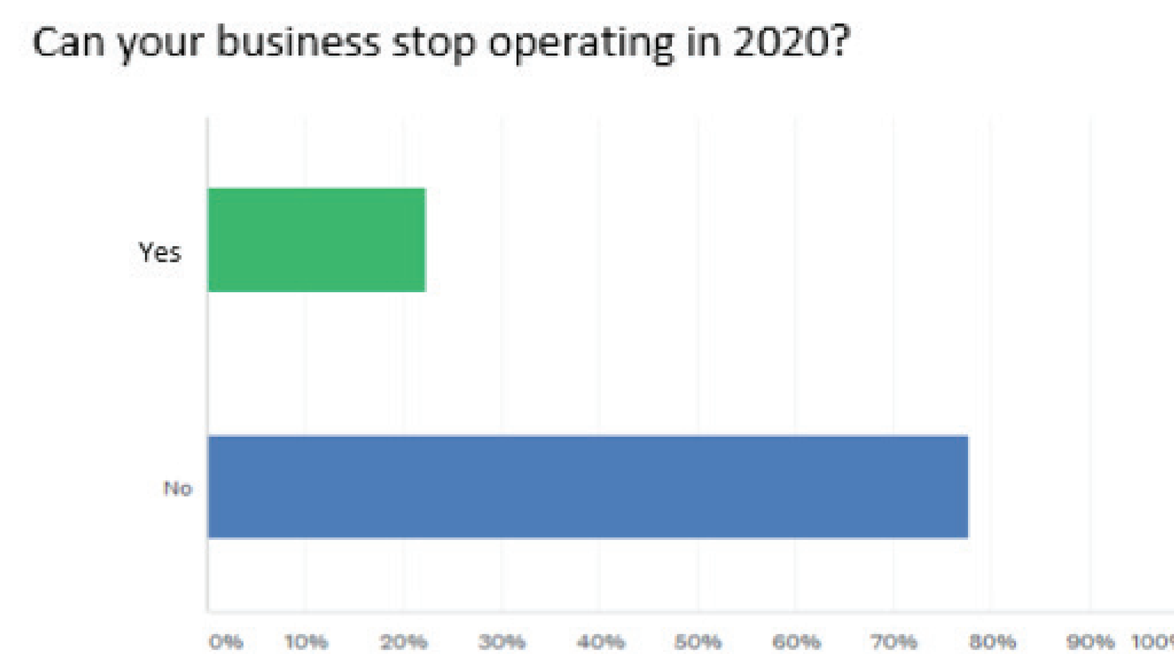
That is why as primary sources of advice, it has become necessary to study the socio-economic environment of the different sectors, where by means of a survey, it is possible to capture the different scenarios according to their new reality.

55% of the people interviewed indicate that the economic environment of 2020 and 2021 will show the same picture, while 45% indicate that the commercial conditions for 2021 will present a more complicated picture than that currently evidenced.



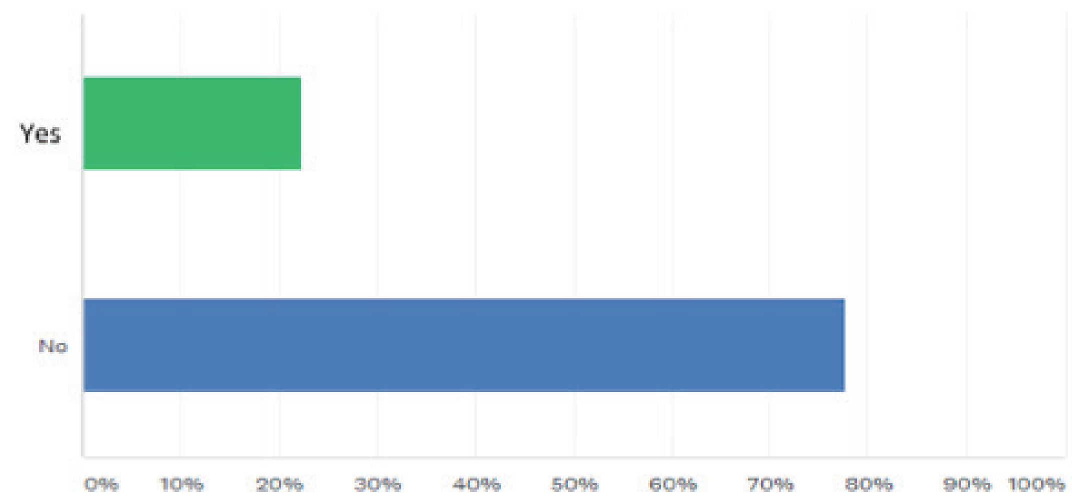


100% of the people interviewed point out that economic stability is a direct factor to increase competitiveness; directly relating the acquisition of investors, obtaining foreign exchange and social stability that can be achieved with it.



Regarding business continuity, the outlook remains very positive, or as they indicate "surviving"; of which 78% state that they will not cease their operations, while 22% indicate that they may stop operating due to the crisis.

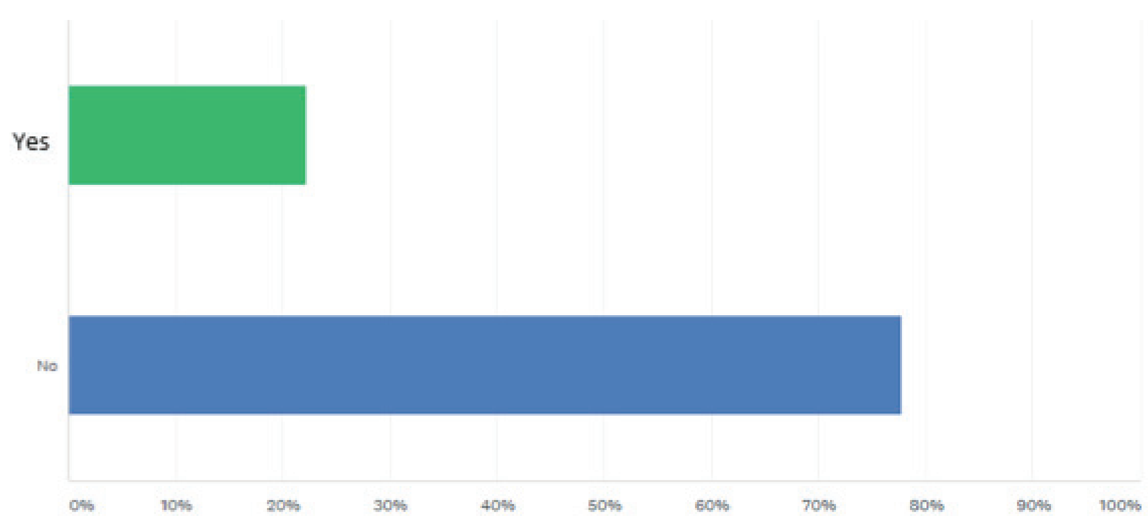
Do you consider government support helpful?



We ask for the support of the government and 78% indicate they have not felt support, while 22% show a positive response.

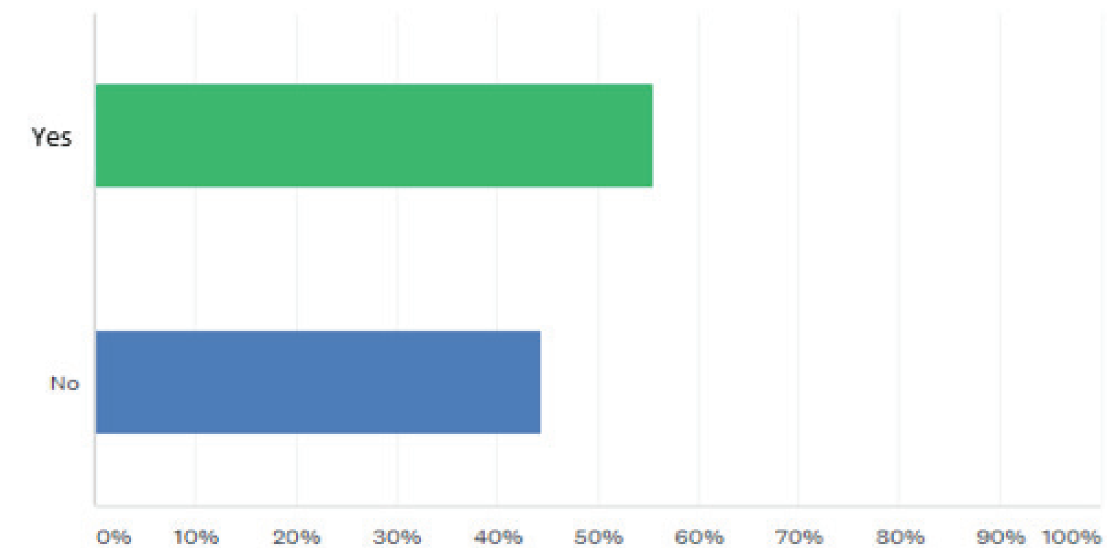
Among the aid they indicate the Protect Bonus for people without work, municipal aid and government organizations; While the negative answer indicates the closure of businesses, vehicle restrictions and even projects to increase taxes.

Is the current tax regime appropriate for the growth of your company?



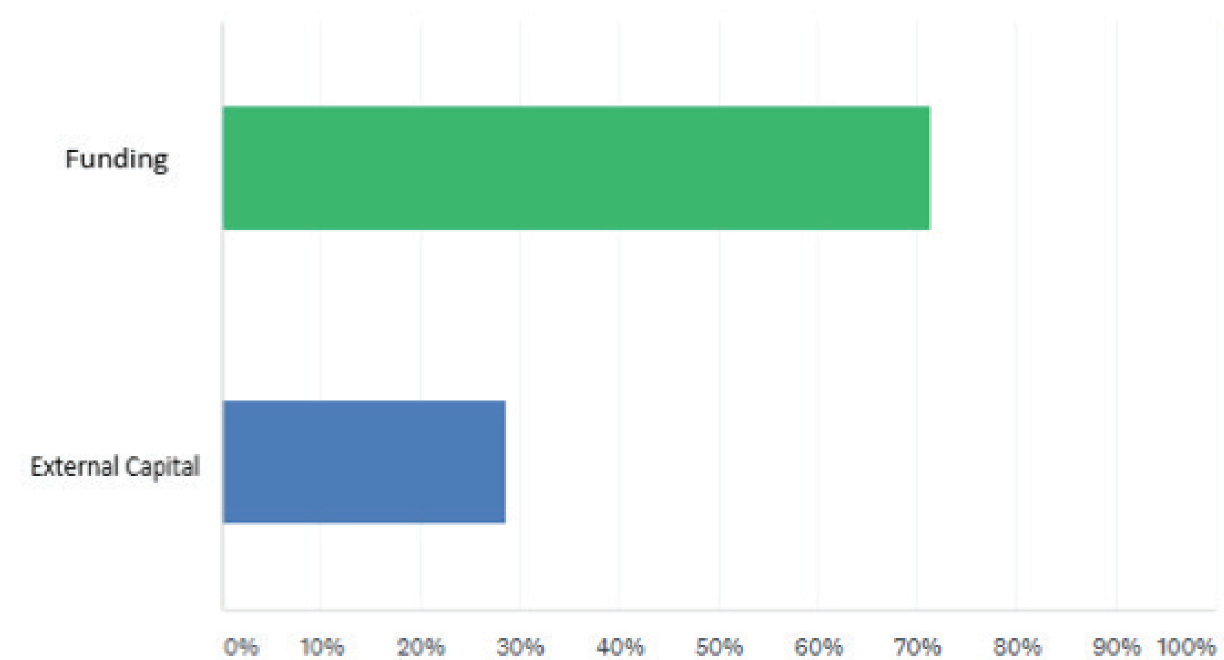
Since before the start of the crisis, commerce has been affected by the implementation of the new tax relief law; Now, despite the fact that there has been a considerable deficit in operations, the government continues with its tax scheme, which is why 79% perceive a fiscal regime that deteriorates the local economy, while 21% indicates an adequate system tax.

Does your company take advantage of disruptive or innovative technologies?



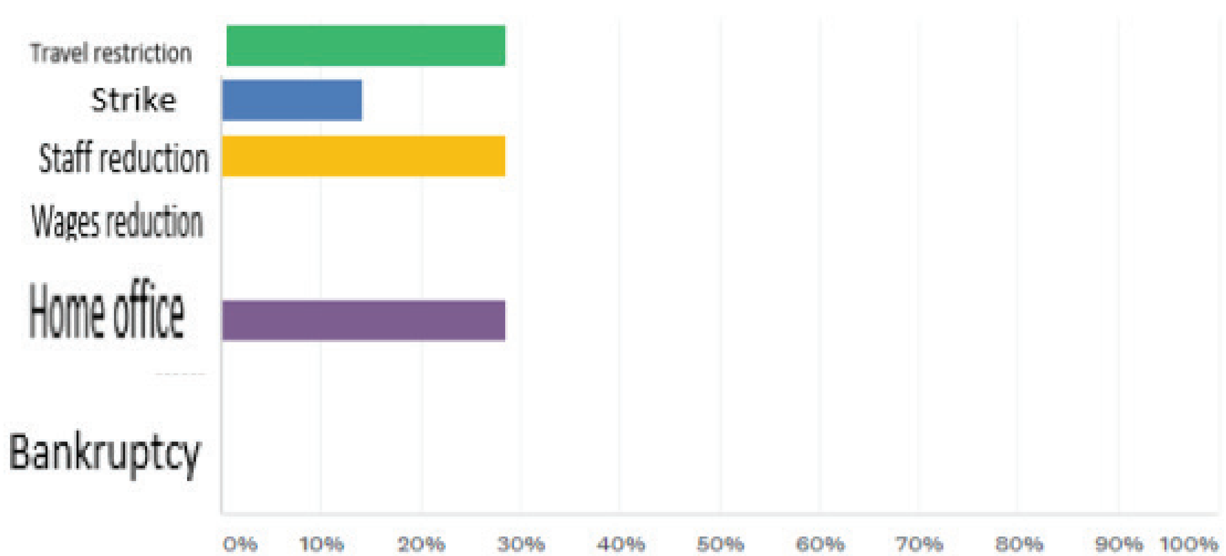
Within the technology landscape, the processes have been innovating, despite this 56% indicate that these technologies are being used while 44% indicate that this condition is not being met in their company...

Does your company require continuity to achieve?



To achieve continuity, 71% of those interviewed indicate that they require financing, while 29% point to the injection of external capital.

Which of these strategies will you apply in your company?



Among the strategies to minimize the financial impact, the options with a little diversified:

- The 0% does not indicate as a strategy the reduction of wages or bankruptcy for example.

- 28% indicate travel restrictions, staff reduction and telework.

- While 16% point to a stoppage of operations.

How do you plan to mitigate business closure risks?

It is consulted on the mitigation measures for business closure risks, referring to the following strategies:

- Several shops tell us that at the moment they have not seen a major impact.

- Implementing more restricted measure of spending.

- Diversifying and reinventing their products, incorporating sale options that previously did not have.

- Layoffs and reduction of working hours.

- Innovating goods and services with the manufacture of masks, disinfectant mats, alcohol, masks, home delivery, food sales, etc.

- Readjust the price of the service and implementation of ICT to continue providing the service.

Long-term, how you view your business?

- Stable

- Recognized as the best comprehensive proposal in MK

- Missing

- Growing in exports

- Staying in the market stably

- Growing back

- Surviving but making adjustments to the service

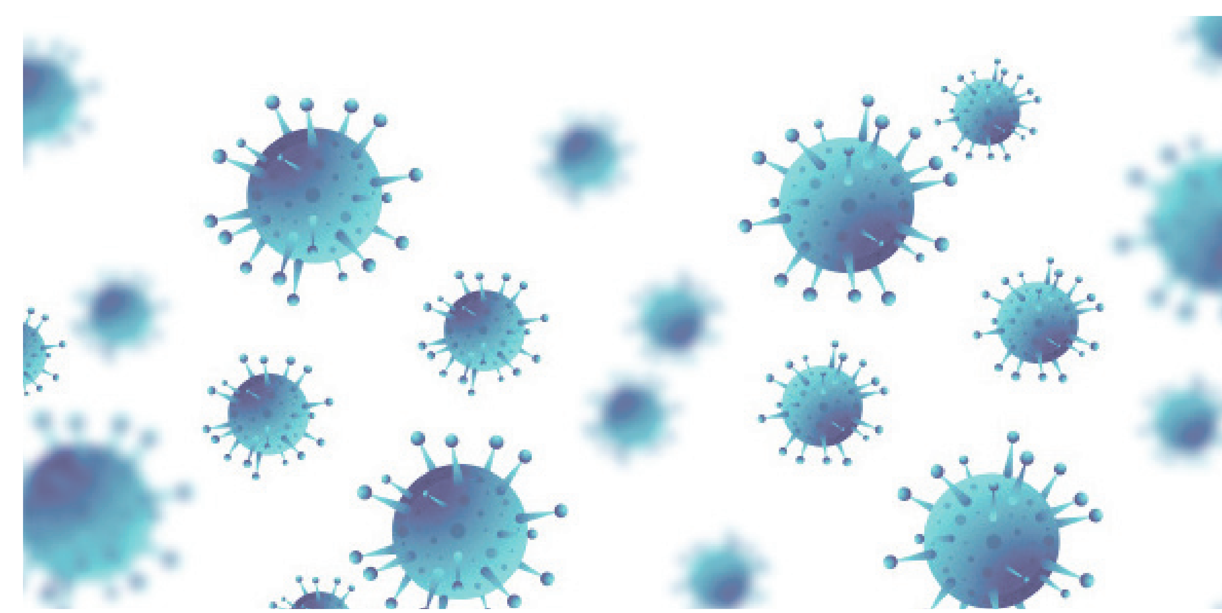
- With an annual growth of 10%

Conclusion

According to the effective spread of the virus, specialists in the health area estimate that the panorama will continue to be maintained for at least one more quarter, so they urge the population to adapt to the new Business Environment.

Companies and commerce in general have made great efforts to attend to each of the measures imposed by the Central Government, where the ongoing business continues to be the common objective.

That is why diversification has become the quintessential strategy to keep local businesses afloat.



Free Trade Zone Regime in Nicaragua

Audit Global Nicaragua, S.A

Why Invest in Nicaragua?

Nicaragua has a series of competitive advantages that make the country an attractive destination for foreign investment. These benefits include:

- Strategic location
- A favorable business climate
- A solid legal framework
- One of the safest countries in the region
- Preferential access to the most important markets in the world
- Availability of a productive and qualified workforce at competitive costs.

Strategic location

Nicaragua is strategically located in the heart of the American continent, only two hours by air and three days by sea to the main ports on both coasts of the United States, Mexico and South America. This makes it an excellent destination to invest and do business.

A solid Legal Framework.

Nicaragua has a solid legal framework for investments that provides all the guarantees that investors need to operate with confidence in the country.

a) The Investment Promotion Law (Law 344) offers investors fundamental guarantees such as:

- Free currency convertibility.
- Free Capital Expatriation: Foreign investors are guaranteed the enjoyment of fund transfers abroad
- There is no minimum or maximum investment amount
- Access to financing available in local banks, according to their terms and conditions of approval
- Protection of property rights, patents and trademarks
- There is no discrimination towards foreign investors
- 100% international ownership allowed

b) Law for the Promotion of Foreign Investments (Law 344)

c) Tax Agreement Law (Law 822)

d) Temporary Admission Regime (Law 382)

e) Industrial Export Free Zones (Law 917)

f) Law for the Promotion of Electricity Generation with Renewable Sources (Law 532)

g) Special Law on Exploration and Exploitation of Mines (Law 387)

h) Tourist Incentives Law (Law 306)

Access to the main markets Main commercial agreements.

Agreements	Countries
Free trade agreements	United States, Mexico, Panama, Taiwan, Dominican Republic, Chile, European Union and South Korea
Central American Common Market	Nicaragua, Guatemala, El Salvador, Honduras and Costa Rica. Additionally, free mobility of capital, services and human resources among CA-4 countries
Preferential Access Agreements	Japan (GSP), Norway (GSP), Canada (GSP), Russia (GSP), Switzerland (GSP) and ALADI
ALBA	Venezuela, Ecuador, Bolivia, Cuba, Antigua and Barbuda, Dominica and Saint Vincent and the Grenadines
Recent Agreements	ALADI (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela and Cuba)
Negotiation Agreements	Canada, CARICOM
Source: Ministry of Development, Industry and Commerce (MIFIC).	

Investment Opportunities

Light manufacturing

- Automotive parts manufacturing
- Footwear manufacturing
- Manufacture of medical devices
- Other light manufacturing processes

Agroindustry

- Livestock and dairy and meat production
- Food processing
- Forest plantations

Outsourcing of services

- Knowledge Process Outsourcing (KPO)
- Shared Services Centers (CSC)
- Business Process Outsourcing (BPO)

Renewable energy

Exploration and exploitation of mines Tourism

FREE ZONE REGIME

Exceptional customs and tax regime that allows Companies authorized to operate under this regime, produce and export goods or services, in a delimited part of the national territory and considered for tax purposes as located outside the National territory;

The Free Zones Regime is regulated by the "Export Free Zones Law 917, and through the regulations according to Executive Decree 12-2016" supervised and regulated by the "Free Zones Commission"; decentralized entity under the sectoral leadership of the Presidency of the Republic, with technical and administrative autonomy.

TYPES OF FREE ZONES AND THEIR TAX BENEFITS.

1. Free Zone Operating Companies

The companies that administer Free Zones of private domain will be called "Free Trade Zones Operating Companies", once authorized to operate they will enjoy the following tax benefits:

a. Exemption of 100% of the Income Tax generated by the operations of the Zone, for a period of fifteen years from the beginning of its operation, which may be extended only once, for an equal period prior authorization from the National Commission Free Zones.

b. Total exemption from the payment of Tax on the importation of machinery, equipment, tools, spare parts and other implements necessary for the functioning and operation of the Zone.

c. Exemption from the payment of tax for the incorporation, transformation, merger and reform of the company, as well as the Tax on Tax Stamps

d. Total exemption from the payment of taxes on the transfer of real estate related to the Zone.

e. Total exemption from indirect, sales or selective consumption taxes.

f. Total exemption from municipal taxes.

2. Free Zone User Company

A Free Zone User Company is understood to be any business or industrial or service establishment authorized to operate within a Free Zone, having as its sole purpose the operations of its business in the Zone. The User Companies of Free Zones will enjoy the following tax benefits:a

a. 100% exemption during the first ten years of operation and 60% from the eleventh year onwards, from the payment of Income Tax. The initial period of 10 years of exemption of 100% of the payment of Income Tax may be extended only once.

b. Exemption from the payment of taxes on the sale of real estate under any title, including the Capital Gains Tax, if applicable, provided that the company is closing its operations in the Zone and the real estate continues to be subject to the Free Zone regime

c. Exemption from payment of taxes for the incorporation, transformation, merger and reform of the company, as well as the Tax on Tax Stamps

d. Exemption from all taxes, customs and consumption duties related to imports, applicable to the introduction into the country of raw materials, materials, equipment, machinery, matrices, parts or spare parts, samples, molds and accessories intended to enable the Company for its operations in the Area; as well as the taxes applicable to the necessary equipment for the installation and operation of cheap canteens, health services, medical assistance, nurseries, recreation areas and any other type of goods that tend to satisfy the needs of the company's personnel that work in the Area.

e. Exemption from customs taxes on transport equipment, whether they are cargo, passenger or service vehicles, intended for the normal use of the company in the Zone.

f. Total exemption from indirect, sales or selective consumption taxes.

g. Total exemption from municipal taxes.

h. Total exemption from export taxes on products made in the Zone.

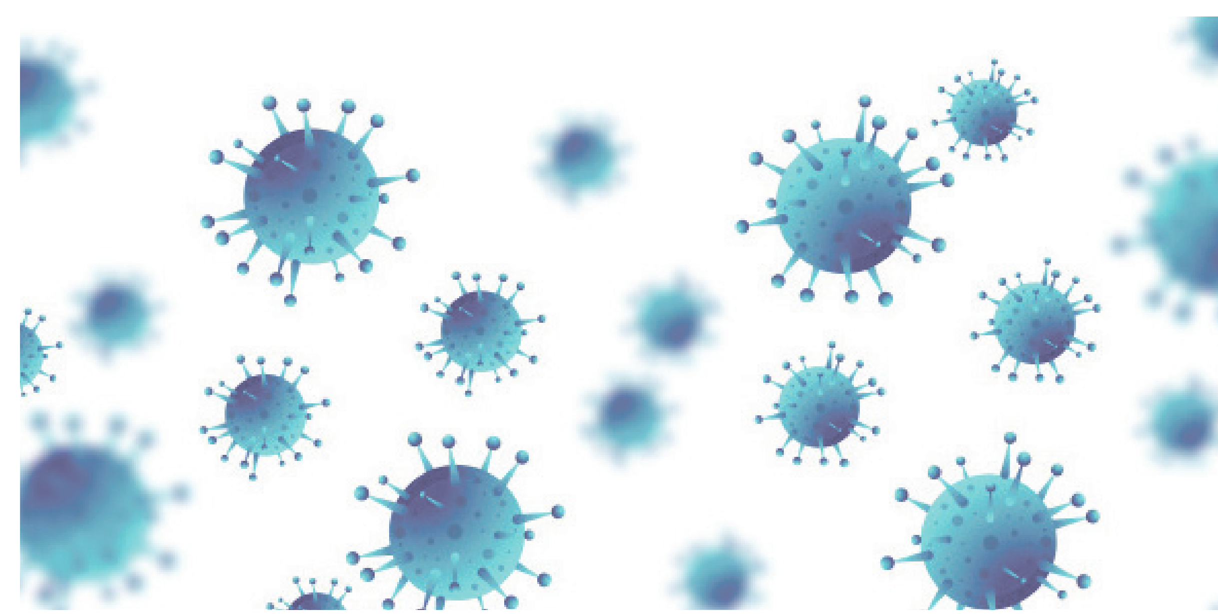
i. Exemption from fiscal and municipal taxes on local purchases.

Main requirements

Every Free Trade Zone User Company must be established as a commercial company in accordance with Nicaraguan legislation, having as its sole purpose the operations of its business in the Zone. Foreign companies may do so through subsidiaries or branches, in accordance with the procedure established by the current Nicaraguan Code of Commerce, with limitations regarding their purpose.

Companies that wish to establish and operate in a Zone must submit their request to the National Commission of Free Zones, which will resolve the case after studying it. The Commission will issue its resolution taking into account mainly the economic policy of the country and the convenience of the company's operations, all in accordance with the provisions of this Law and its regulations.

Only companies that are dedicated to the production and export of goods or services, in accordance with the provisions of this Law, will be considered admissible to operate in a Zone. These companies may be national or foreign.

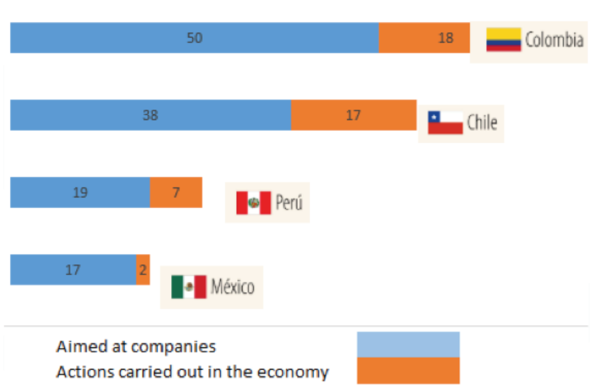


COVID SURVEY - 19 COLOMBIA

Diana Hernández

As part of supporting our clients, we have been monitoring how Colombia has been affected in the process of this pandemic

1. Support from the Government



In Colombia, government aid has been:

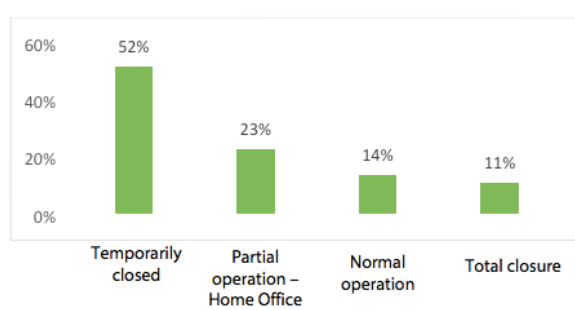
- Support in payment of legal service bonus
- Support in payment of minimum legal salary
- Reduce pension payment for 2 months
- Support in business loans
- Support for the unemployed, among others

2. Current situation of micro, small and medium-sized companies and expectations for the next six months

Expectative	
Positive	42%
Stable	19%
Negative	39%

Expectation: Identify new opportunities, support its clients, Transform the processes of provision or services or commercialization, redefine objectives, Improve its technology processes, among others.

Concerns: Decrease in sales (Almost 81%), Decrease in product inventory, Manage accounts receivable, Decrease in personnel, Increase in taxes, Exchange rate).



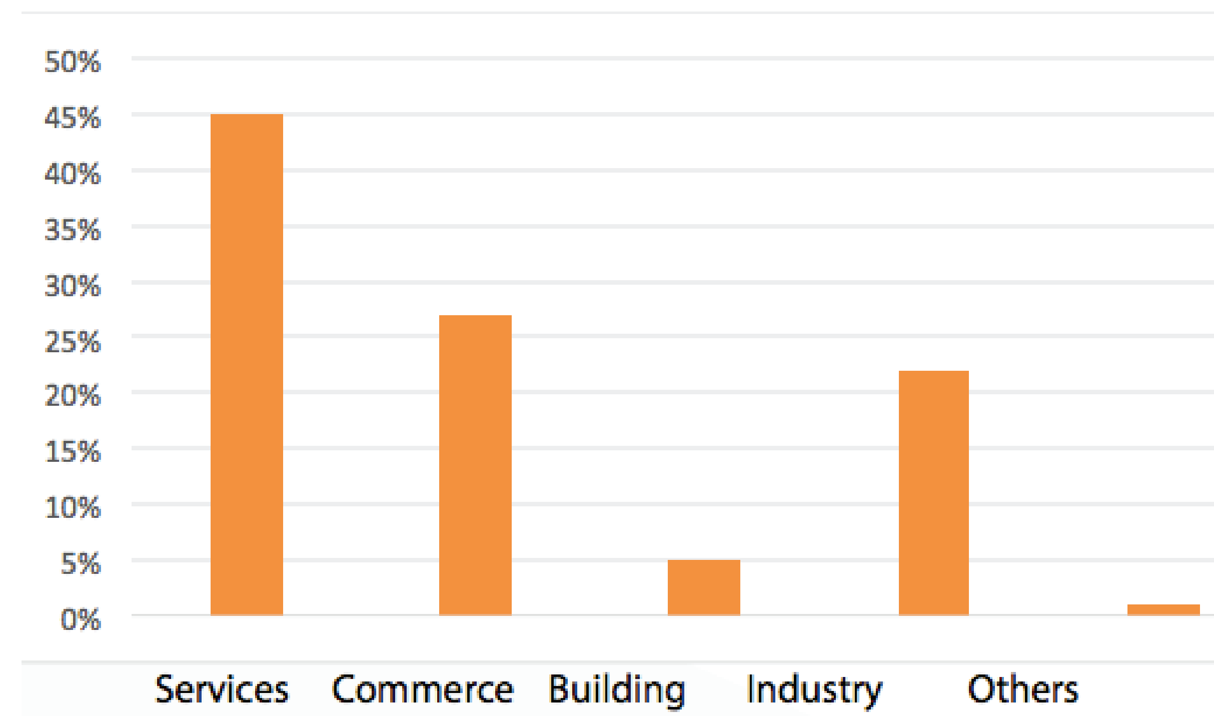
The measures taken by the companies have been: Reduce costs, Restructure or renegotiate credits, Reduce investments, Reduce working hours, reduce the number of workers, reduce wages and maintain hours, anticipate "vacations" or increase a greater workload to fill positions.

3. Companies and sectors affected

One of the main problems is the cash flow capacity to comply with the commitments, where it is indicated that the working capital can work for 2 months 80%, up to 4 months 13%, up to 6 months 3%, up to 12 months 2% and more than 12 months 2%

The sectors affected especially have been Hotels and entertainment

Big	6%
Median	5%
Micro-enterprise	72%
Small Company)	17%



4. New means of marketing

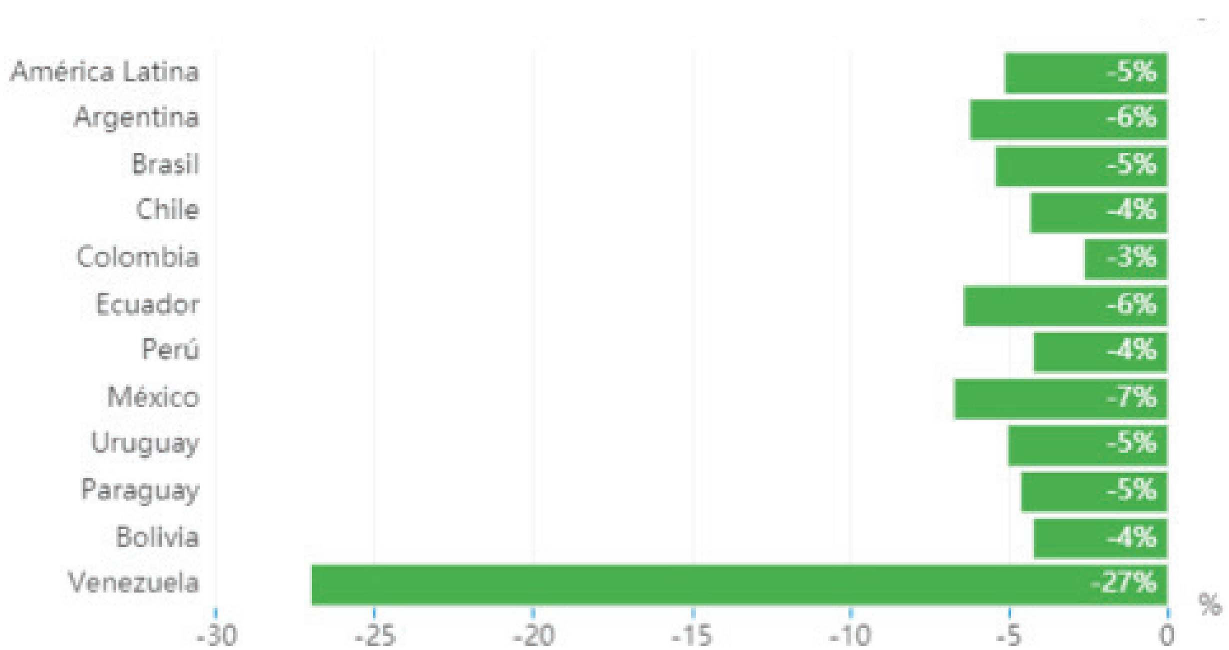
Definitely, the way of providing our services or offering products to digital media has changed, but another option that has become widespread is to make alliances with other entrepreneurs, companies and businessmen to improve the options of the portfolio of services and products

5. Expected economic growth

As general conclusions, this process of change due to the pandemic:

- Show familiarity and solidarity for the work team or collaborators and for clients, generating a work chain so that the generation of economy continues
- Adapt and transform ourselves into companies, with different ways of communicating, improving customer services, supporting processes in less time and being available to generate joint solutions
- Enjoy our families, value them and support our friends with their entrepreneurship projects
- Stay optimistic, resilient, confident and willing to move on and face the situation

Expected economic growth



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