Abaad Iktissadia Review Vol: (14) N°(01) year: 2024 pages(512-532)

EFFECTS OF COVID 19 PANDEMIC ON ACCOUNTING DISCLOSURE OF FINANCIAL INSTRUMENTS

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submitted:03/03/2024 **Accepted:27/05/2024** **published:30/06/2024**

Abstract:

The purpose of this research is to find out the effects of COVID 19 pandemic on accounting disclosure of financial instruments. Descriptive and inductive approaches were employed to assess hypotheses suggesting that the pandemic impacts the quality and reliability of financial instrument disclosures relating respectively to market risks and fair value. A questionnaire was used to collect data regarding the effect of some selected challenges, and applied for a sample of 56 individuals including academics and professionals. The findings suggest that during the pandemic, entities faced some obstacles when disclosing of financial instruments such as uncertainty, market volatility, economic recession, doubt, accelerated flow of information, rumors, false and fake news. These factors collectively compromised the quality of accounting disclosures related to financial instruments.

Keywords: COVID-19, Accounting disclosure, financial instruments

JEL Classification Codes: M41 , G10

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Introduction

Financial instruments play a crucial role for entities since they can manage a set of risk factors through these financial contracts, and protect their financial income, liquidity and cash flows. However, when managers employ these financial instruments inadequately, they run the risk of exposing their entities to complex scenarios that could result in potential financial losses. In this regard, information about financial instruments holds relevance for users of accounting reports. With a complete, adequate and relevant information, investors can make more accurate assessments of investment risks associated with these assets.

In this context, the outbreak of COVID 19 pandemic in the beginning of 2020 associated with its unprecedent economic conditions such as economic downturn, uncertainty, fluctuations, financial market volatility, credit deteriorating … etc, brought new challenges regarding the disclosure of financial instruments, and imposed numerous constraints to entities when they report for their financial instruments.

Study Problem

In light of the foregoing, the study problem can be formulated in the following main question:

What are the effects of the COVID-19 pandemic on the accounting disclosure of financial instruments?

Sub-Questions

The main question of the research can be divided into the following sub-questions:

- What are the effects of the COVID-19 pandemic on accounting disclosures related to the risks of financial instruments?
- What challenges has the COVID-19 pandemic introduced regarding the disclosure of the fair value of financial instruments?

Hypotheses

To address the problem of the study, the following hypotheses can be proposed:

- The economic conditions associated with the pandemic affect the quality of accounting disclosures regarding the risks of financial instruments.

- The COVID-19 pandemic affects the reliability of accounting disclosures of the fair value of financial instruments.

Study Purposes

This study aims to highlight the covid 19 pandemic's effects on accounting disclosure of financial instruments, and the challenges and obstacles that entities face when disclosing financial instruments in light of the COVID-19 pandemic.

Study Methodology

In our study of this topic, we used two approaches. First, the inductive approach was utilized for analysis, drawing conclusions, and providing definitions, concepts, and terms related to accounting disclosure of financial instruments. Second, the descriptive approach was used to test the hypotheses. A questionnaire was employed for data collection, and the collected data were analyzed using the Statistical Package for the Social Sciences (SPSS).

Study Importance

The importance of the study lies in the following points:

- Highlighting the problems and obstacles entities face when disclosing financial instruments during a crisis.

- Contributing to the debate on contemporary accounting issues, particularly accounting disclosure.

- Assessing the effectiveness of IFRS 7, Financial Instruments: Disclosures, during a crisis.

- Ensuring the credibility and reliability of disclosures provided by entities related to financial instruments.

Study Structure

The current study is mainly divided into two parts, the first one includes theoretical background of the topic. The second part includes data and tools employed to test hypotheses and presentation of the study's findings.

Previous Studies

We have examined some previous studies that dealt with topics related to this paper, including:

- **Abd El Rahman Mohammed Soliman Rashwan, Zeinab Abd-El hafiz Ahmed Kassem (2021)**: the study is entitled "Potential role of accounting disclosure to reduce risks arising from the COVID19 pandemic", It mainly aims to identify the role of accounting disclosure to reduce the risks arising from the COVID-19 pandemic in the listed companies in Palestine Stock Exchange. The results of the study show that companies should provide additional disclosures to enable users of accounting information to evaluate risks that may affect the future of these companies. (Abd El Rahman & Zeinab, 2021).

- **Jie Hao, Viet T. Pham (2022):** this study is entitled "COVID-19 Disclosures and Market Uncertainty: Evidence from 10-Q Filings», the authors aim through this paper to examine whether the accounting disclosures reduce uncertainty for investors and analysts during the pandemic period, they found that disclosures reduce information comparability across firms, resulting in increased investor uncertainty (Jie Hao & Viet T. Pham, 2022).

- **Arlie Irham, Dyah Purwanti (2021):** The title of the study is "Implementation of PSAK 71 Financial Instruments in The Banking Sector During the Covid-19 Pandemic", this study aims to analyze the impact of the COVID19 pandemic on the application of accounting rules in banks during the pandemic by using qualitative methods. The results showed that the pandemic had affected the reliability and quality of disclosed information related to financial instruments (Arlie Irham & Dyah Purwanti, 2021).

Firstly. Theoretical Background of the Study:

Financial reporting for financial instruments was directly impacted by the new COVID-19 virus and its economic conditions, which has obviously provided a burden for businesses when they report for financial instruments. This section outlines the implications and effects of the pandemic on financial instrument accounting disclosure.

1. Liquidity risk:

Businesses impacted by the global health crisis may encounter cash flow challenges stemming from disruptions to their operational processes, elevated operational expenditures, or a decline in the demand for their goods, resulting in diminished revenues. Consequently, such challenges may precipitate liquidity issues, prompting entities to seek supplementary financing, modify the terms of prevailing debt agreements, or secure waivers if they no longer adhere to debt covenants. Anticipated is the alignment of disclosures mandated by the International Financial Reporting Standards (IFRS) 7 with any noteworthy alterations in the liquidity status. It is imperative that entities articulate the measures they have undertaken to alleviate potential cash flow constraints. Entities are advised to ensure the coherence of such disclosures with their evaluation of the going concern assumption. (Ernst & Young, 2020, p. 8).

2. Modification of Loan Contracts:

The global pandemic has precipitated substantial economic upheavals, leading numerous borrowers to grapple with solvency challenges. Consequently, certain borrowers may engage in renegotiations of their loan agreements with lenders, seeking adjustments such as the implementation of payment holidays, reductions in interest rates, and other modifications to the terms of the loans. (THE SOUTH AFRICAN INSTITUTE OF CHARETED ACCOUNTANT, 2020). Henceforth, various accounting and financial regulatory bodies have mandated entities to divulge both qualitative and quantitative details pertaining to their altered loan portfolios in the wake of the pandemic. As an illustration, the Securities and Exchange Commission (SEC) has advocated for registrants to furnish enhanced disclosures in light of the COVID-19 outbreak. These disclosures encompass particulars regarding loan modification initiatives, comprehensive information regarding the nature of modifications and their principal characteristics, quantification of the adjusted loans, and an assessment of the efficacy of the lender's programs, among other pertinent details. (KPMG, 2020, p. 5)

3. Hedge Accounting:

Due to the impact of the pandemic, commercial transactions may be deferred, canceled, or executed at markedly diminished volumes compared to the originally projected figures. In the event that an entity has designated a transaction, such as the acquisition or disposition of goods or the anticipated issuance of debt, as a hedged forecast transaction within the context of a cash flow hedge, it becomes imperative for the entity to reassess whether the transaction continues to qualify as a highly probable forecast transaction. (Ernst & Young, 2020, p. 11) Illustratively, instances may arise wherein the economic association between the hedged item and the hedging instruments diminishes or becomes non-existent. Alternatively, the impact of credit risk may begin to overshadow the value fluctuations arising from said economic relationship. In such scenarios, the discontinuation of the hedging relationship in its entirety becomes warranted(Malaysian Accounting Standards Board, 2020, p. 27) .

4. Expected credit losses:

IFRS 9 has delineated the concept of expected credit loss as the computed average of credit losses, wherein the associated risks of default serve as the weighting factors in the calculation. (IASB, 2020, p. 68). Expected Credit Losses (ECLs) are assessed by incorporating information pertaining to historical events, prevailing circumstances, and projections of forthcoming economic conditions. It is imperative to update this information at each reporting date to ensure the accuracy and relevance of the ECL measurements. (KPMG, 2021, p. 11)

Businesses impacted by the pandemic should provide comprehensive disclosures concerning their evaluations and estimations of expected credit losses. Recognizing the subjective nature inherent in Expected Credit Loss (ECL) calculations, entities are advised to disclose the inputs utilized in the calculation process. Additionally, it would be prudent for entities to conduct a sensitivity analysis, elucidating the potential impact of alterations to these inputs on their ECL estimates. (Ernst & Young, 2020, p. 12).

5. Sensitivity analysis of Market risk:

In the context of the unprecedented economic conditions stemming from the pandemic, entities are compelled to furnish sensitivity analyses pertaining to financial instruments, encompassing all categories of market risks. This includes an examination of interest rate risk, currency risk, and price risk. Such analyses serve to enhance transparency and provide stakeholders with insights into the potential impact of fluctuations in market conditions on the financial instruments held by the entity. (Malaysian Accounting Standards Board, 2020, p. 25). Any alterations in the methodologies and assumptions employed, as well as the rationale behind such changes, compared to preceding periods, necessitate explicit disclosure. Particularly, in reporting periods influenced by the exceptional circumstances surrounding the pandemic, where heightened volatility may prevail, entities are anticipated to provide comprehensive disclosures elucidating the facts and circumstances that prompted a modification in the applied level of volatility. This ensures transparency and aids stakeholders in comprehending the nuances that contributed to the changed reporting dynamics. (Malaysian Accounting Standards Board, 2020, p. 25) .

6. Fair value measurement:

Amidst the economic downturn precipitated by the COVID-19 pandemic, there was a substantial reduction in the volume and level of activity within the market for a specific item when juxtaposed with its typical market dynamics. This diminished market activity contributed to heightened volatility in market prices, reflecting the pronounced impact of the pandemic-induced economic challenges on the usual trading conditions (KPMG, 2020, p. 20).
In the prevailing economic circumstances, entities are mandated to offer transparency regarding the methodologies and assumptions employed in ascertaining fair value, incorporating sensitivities as necessitated by the disclosure requirements outlined in IFRS 13 Fair Value Measurement. Transparency, being an integral facet of fair value measurement, assumes heightened significance during this unprecedented period. It serves as a pivotal element in augmenting the utility of financial reporting by providing stakeholders with a comprehensive understanding of the factors influencing fair value assessments in the current challenging environment. (Ernst & Young, 2020, p. 41).

7. Leases:

The onset of the COVID-19 pandemic has necessitated increased disclosures, with additional emphasis on lease contracts, which can be succinctly summarized in two key points. Firstly, entities are advised to reassess the incremental borrowing rate, taking into consideration the economic ramifications of the pandemic, inclusive of factors such as fluctuations in interest rates and the entity's own credit risk. Secondly, entities are required to provide disclosures pertaining to lease modifications resulting from operational disruptions associated with the pandemic, providing stakeholders with a comprehensive understanding of the adjustments made in response to these extraordinary circumstances. (Raymond Chabot Grant Thornton, 2020, p. 9) .

8. Material judgements and estimates:

In periods of heightened uncertainty, such as the COVID-19 pandemic, it becomes crucial to afford users of financial statements with pertinent insights into the resilience of the entity amid the prevailing uncertainty. Additionally, there is a paramount need to elucidate the key assumptions and judgments underpinning the preparation of financial information. This transparency serves to enhance the comprehension of stakeholders regarding the entity's adaptability and the foundational principles shaping financial reporting during these challenging times(Deloitte, 2020, p. 3).

Secondly. Method , Tool and Results :

1. Method and Tool

To tackle the research problem at hand, which is ***"What are the effects of the COVID-19 pandemic on the accounting disclosure of financial instruments? "*** . The data collection for this study involved the utilization of a self-administered questionnaire to gather perceptions from Algerian academics and professionals about accounting disclosure of financial instruments during the Covid 19 pandemic period. Subsequent to the data acquisition which lasted two months from January to March 2023, statistical analysis was conducted to derive meaningful insights and draw conclusions from the gathered information.

The questionnaire comprised three sections. The first segment aimed to elicit personal information from participants, encompassing accountants, auditors, certified public accountants, researchers, and staff members affiliated with Algerian universities. This section sought insights into their respective backgrounds. The second segment was tailored to capture participants' perspectives on the repercussions of economic conditions associated with the pandemic, including aspects such as financial market recession, doubt and uncertainty, volatility, and the accelerated flow of information. Specifically, this section focused on the impact of these conditions on the quality of accounting disclosure concerning risks emanating from financial instruments. The third segment of the questionnaire aimed to gather opinions on the effects of the pandemic and its economic consequences on the reliability of accounting disclosure related to the fair value of financial instruments.

In this study, a five-point Likert scale was employed. This method was chosen for its effectiveness in gauging respondent opinions, offering participants a range of options (as illustrated in Table 01) to choose from. The utilization of Likert-type scales was motivated by their utility in obtaining nuanced responses and providing participants with a structured set of choices, thereby enhancing the overall response rate.

Table (01): Five-point scales

	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
Items	1	2	3	4	5

A total of 56 electronic questionnaires were distributed to academics and professionals for this study, and all received questionnaires were deemed valid and included in the analysis. The collected data from these questionnaires underwent rigorous statistical analysis as part of the study's research methodology. Descriptive statistics were used to analyze the background information of participants including educational level, occupation and years of experience. (Table 2) shows Percentage Distribution of Participants by Qualification Achieved, Experience and Occupation.

Table (2): Distribution of Participants by Qualification, Experience andOccupation

Educational level	Nmbr	%
First university Degree	15	27
Master Degree	20	35
PHD Degree	19	34
Others	2	4
Total	56	100
Occupation	Nmbr	%
Accountant	18	32
Auditor	8	14
Certified public accounant	5	9
University Lecturer	14	25
Chartered accountant	7	13
Others	4	7
Total	56	100

Years of Experience	Nmbr	%
5 Years <	25	45
From 6 to 15 Years	18	32
> 16 Years	13	23
Total	56	100

Source: own elaboration based on SPSS outputs.

Cronbach‟s Alpha test was used to check the reliability of the study's tool and all items in the scale.

Table (03): Cronbach's Alpha Test Result

N° of Item	**Cronbach's Alpha**
10	0,869

Source: own elaboration based on SPSS outputs.

The reliability test was applied to all 10 questions, and the results are presented in Table (03), revealing a Cronbach's alpha coefficient for the entire questionnaire of 0.869. This coefficient signifies a high level of internal consistency, indicating that the study instrument is highly acceptable. This outcome instills confidence in the validity of the tool, affirming its appropriateness for the analysis, interpretation of results, and the testing of hypotheses within the study.

2. Empirical results:

To analyze the gathered data concerning the study's variables and to test the hypotheses, several pertinent statistical methods were employed. Descriptive statistics were applied, encompassing the computation of means to ascertain the central tendencies of the variables, standard deviations to gauge the extent of dispersion of values around their means, and the generation of frequency distributions to provide an overview of the distribution of responses. These statistical measures collectively offer a comprehensive understanding of the data and contribute to the interpretation of the study's findings.

H.1 The economic conditions associated with the pandemic affect the quality of accounting disclosures regarding the risks of financial instruments: To find out the pandemic's challenges and effects that impacted the quality of accounting disclosure of risks arising from financial instruments, we have included 05 statements as shown below in (table 04).

Table (04): Analyzing the participants' opinions

N°	Statements	Mean	SD
1	The recession witnessed in financial markets during the pandemic poses an obstacle when disclosing of financial instruments	4.14	0.86
2	The uncertainty associated with the pandemic may lead to misleading estimates of liquidity risk	4.14	0.77
3	The doubt, fear and uncertainty that prevailed in financial markets during the pandemic lead to incorrect estimates of market risks	4.12	0.85
4	The state of uncertainty and ambiguity prevailing during the pandemic affects the credibility of disclosures regarding the future position of creditors	4.17	0.72
5	The state of instability prevailing during the pandemic affects the credibility of disclosures related to financial forecasts	4.23	0.66

Source: Own elaboration based on SPSS outputs

By extrapolating the information from the presented table, participants' responses regarding the first segment of the study, which focuses on "The economic conditions associated with the pandemic affect the quality of accounting disclosure of risks arising from financial instruments," became apparent. The fifth paragraph emerged as the most prominent, attaining a first-place ranking with a standard deviation of 0.66 and a mean of 4.23. Following this, paragraphs 1 and 2 secured the second and third positions, respectively, each exhibiting a standard deviation of 0.86 and 0.77, both with a mean of 4.14. The fourth paragraph followed closely with a standard deviation of 0.72 and a mean of 4.14. In the last position within this classification, the third paragraph exhibited a standard deviation of 0.85 and a mean of 4.12. The overall mean for this section is recorded at 4.15, suggesting that the accounting disclosure of risks associated with financial instruments encounters various challenges and obstacles arising from factors such as financial market recession, doubt and uncertainty, volatility, and an accelerated flow of information.

Table (05): Frequency and Percentage Results

N	Statements	SA		A		N		D		SD	
		N°	%	N°	%	N°	%	N°	%	N°	%
1	The recession witnessed in financial markets during the pandemic poses an obstacle when disclosing of financial instruments	21	37.5	25	44.6	8	14.3	1	1.8	1	1.8
2	The uncertainty associated with the pandemic may lead to misleading estimates of liquidity risk	17	30.4	33	58.9	4	7.1	1	1.8	1	1.8

3	The doubt, fear and uncertainty that prevailed in financial markets during the pandemic lead to incorrect estimates of market risks	19	33.9	29	51.8	5	8.9	2	3.6	1	1.8
4	The state of uncertainty and ambiguity prevailing during the pandemic affects the credibility of disclosures regarding the future position of creditors	16	28.6	34	60.7	5	8.9	0	0	1	1.8
5	The state of instability prevailing during the pandemic affects the credibility of disclosures related to financial forecasts	19	33.9	32	57.1	4	7.1	1	1.8	0	0

Source: Own elaboration based on SPSS outputs

SA = Strong Agree A= Agree N= Neither D=Disagree SD= Strong Disagree

Table (05) illustrates the results of frequency and percentage for items related to first part of questionnaire.

H.2 The COVID-19 pandemic affects the reliability of accounting disclosures of the fair value of financial instruments: In order to find out the challenges and implications of COVID 19 on the reliability of financial instruments' fair value disclosures, we have listed 5 statements as shown below in (Table 06).

Table (06): Analyzing the participants' opinions

N°	Statements	Mean	SD
1	The fluctuations witnessed in financial markets during the pandemic negatively affect the reliability of disclosures regarding the fair value of financial instruments	4.23	0.83
2	Uncertainties associated with the pandemic negatively affect the reliability of fair value disclosures of financial instruments	4.08	0.86
3	The recession witnessed in financial markets during the pandemic constitutes an obstacle when disclosing the fair value of financial instruments	4.17	0.92
4	In light of the daily acceleration of events that prevailed during the pandemic, the fair value disclosed at the date of the financial statements lose its suitability and usefulness	4.05	0.82
5	The pandemic affects the credibility of financial forecasts that are involved in determining the fair value of financial instruments	4.12	0.85

Source: Own elaboration based on SPSS outputs

The presented table outlines participants' viewpoints regarding the second hypothesis of the study, which investigates "The COVID-19 pandemic affects the reliability of accounting disclosure of financial instruments' fair value." The first paragraph secured the top position with a mean of 4.23 and a standard deviation of 0.83. Following this, the third paragraph held the second position with a mean of 4.17 and a standard deviation of 0.92. In the third position, the fifth paragraph had a mean of 4.12 and a standard deviation of 0.85. The second paragraph occupied the fourth position with a mean of 4.08 and a standard deviation of 0.86. Finally, in the last position, the fourth paragraph had a mean of 4.05 and a standard deviation of 0.82. The overall mean for this section is 4.13, indicating that during the pandemic, various constraints were encountered in the accounting disclosure of financial instruments' fair value, including factors such as financial market recession, doubt and uncertainty, volatility, among others.

Table (07): Frequency and Percentage Results

N	Statements	SA		A		N		D		SD	
		N°	%	N°	%	N°	%	N°	%	N°	%
1	The fluctuations witnessed in financial markets during the pandemic negatively affect the reliability of disclosures regarding the fair value of financial instruments	24	42.9	24	42.9	5	8.9	3	5.4	0	0
2	Uncertainties associated with the pandemic negatively affect the reliability of fair value disclosures of financial instruments	19	33.9	27	48.2	6	10.7	4	7.1	0	0
3	The recession witnessed in financial markets during the pandemic constitutes an obstacle when disclosing the fair value of financial instruments	23	41.1	25	44.6	4	7.1	3	5.4	1	1.8

4	In light of the daily acceleration of events that prevailed during the pandemic, the fair value disclosed at the date of the financial statements lose its suitability and usfelness	19	33.9	25	44.6	8	14.3	4	7.1	0	0
5	The pandemic affects the credibility of financial forecasts that are involved in determining the fair value of financial instruments	18	32.1	32	57.1	2	3.6	3	5.4	1	1.8

Source: Own elaboration based on SPSS outputs

SA = Strong Agree **A**= Agree **N**= Neither **D**=Disagree **SD**= Strong Disagree

Table (07) illustrates the results of frequency and percentage for items related to the second part of the questionnaire.

3. Discussion of Results

In this section, we analyze the questionnaire results in alignment with the research question and existing literature on the accounting disclosure of financial instruments. This discussion serves to position the research in terms of its contribution to knowledge.

The questionnaire results reveal that a significant majority, 82.1% of participants, acknowledged that the financial market recession experienced during the pandemic posed a hindrance to the disclosure of financial instruments. Delving into the first part of the questionnaire, which focused on the quality of disclosures related to risks associated with financial instruments, responses ranged from 85% to 91%.

Participants perceived that the unprecedented economic conditions linked to the pandemic, encompassing uncertainty, market volatility, economic recession, doubt, accelerated information flow, rumors, and misinformation, had an impact on the quality of entities' forecasts concerning risks from dealing in financial instruments. These factors, in turn, were believed to affect the quality of accounting disclosure of risks associated with financial instruments.

Turning to the second part of the questionnaire, addressing the impact of the COVID-19 pandemic on the reliability of accounting disclosure of financial instruments' fair value, 85% of participants concurred that market fluctuations during the pandemic negatively affected the reliability of disclosures related to the fair value of financial instruments. Additionally, 82% of participants agreed that economic uncertainty had a negative impact on the quality of fair value disclosure, and 85% considered recession as an obstacle to accounting disclosure of financial instruments' fair value.

Results from question four indicated that participants perceived the rapid pace of events during the pandemic rendered the fair values of financial instruments on financial statements less suitable within a short timeframe.

In conclusion, the questionnaire results underscored that 89% of participants agreed that the pandemic adversely affects the credibility and reliability of accounting disclosure of financial instruments.

Conclusion

The accounting disclosure of financial instruments has emerged as a prominent and contemporary challenge over the past decades, garnering substantial attention from researchers in the field of accounting. The outbreak of the COVID-19 pandemic has added new dimensions to these challenges, prompting a heightened examination of the implications and hurdles associated with the accounting disclosure of financial instruments. This study endeavors to delineate the challenges and implications arising from the COVID-19 pandemic on the accounting disclosure of financial instruments during this extraordinary period.

To fulfill this objective, the study provides a theoretical foundation by offering insights into the challenges and implications confronted by entities during this period in the process of disclosing financial instruments.

In order to empirically test the hypotheses positing that the pandemic has a discernible impact on both the quality and reliability of financial instrument disclosures, particularly concerning market risks and fair value, a questionnaire was utilized. This questionnaire sought to gather data and opinions from academics and professionals, exploring the effects of various economic conditions associated with the pandemic, such as uncertainty, market volatility, economic recession, doubt, accelerated information flow, rumors, and misinformation, on the accounting disclosures of financial instruments.

The findings of this study suggest that the COVID-19 pandemic indeed exerts a negative influence on the quality of accounting disclosures related to risks arising from financial instruments, as well as on the reliability of disclosures related to the fair value of financial instruments.

Recommendations

Based on the results mentioned above, some recommendations can be given that we deem necessary for in the future for entities when disclosing of financial instruments in circumstances similar to the those associated with COVID 19 pandemic. Our recommendations are the following:

- When disclosing of financial instruments, Entities should provide any information that deem useful for related parties, and not be satisfied with only those required by accounting profession regulators and accounting bodies such as IASB;
- In time of crisis such as COVID 19 pandemic, accounting regulator should intensify their interventions by providing more guidelines to entities about how to deal with these specific situations;
- When reporting in uncertain times such COVID 19 pandemic, it is particularly important for entities to provide users of the financial statements with appropriate insights into the entity’s resilience in the face of uncertainty;
- Entities should provide to users of financial information, the key assumptions and judgements made when preparing financial information.

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