



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

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IOSCO Statement on Importance of Disclosure about COVID-19

The International Organization of Securities Commissions (IOSCO) encourages issuers' fair disclosure about COVID-19 related impacts

IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets and is responsible for the oversight of capital markets and the application and enforcement of accounting standards, auditing standards and disclosure regulations. IOSCO's objectives include investor protection, maintaining fair, efficient and transparent markets, and seeking to address systemic risks. The principles of full, timely and fair disclosure of current and reliable information material to investment decisions underpin these objectives.

In light of the current uncertainty resulting from the COVID-19 pandemic, we remain fully committed to the development, consistent application and enforcement of high quality reporting standards and disclosure regulations, which are of critical importance to the proper functioning of the capital markets. Current circumstances may make disclosures outside the financial statements more challenging. These challenges and conditions make high quality disclosures all the more important.

Investors and other stakeholders need timely and high quality financial information complete with transparent and entity-specific disclosures, including information about the impact of COVID-19 on the issuer's operating performance, financial position, liquidity, and future prospects. In the case of annual financial reporting, high quality audits conducted by an independent auditor is a critical part of the ecosystem that provides reliable, high-quality financial information to investors. This should be complemented by active oversight of the



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financial reporting and audit processes by the issuer’s audit committee or those charged with governance (TCWG) which further supports the provision of reliable, high-quality information to investors.¹

Impact on amounts recognized, measured and presented in the financial statements

The COVID-19 pandemic continues to have a significant impact on amounts recognized, measured, and presented (for example as current or non-current) in financial statements of public companies worldwide, and it is important that issuers consider all aspects of their business when preparing financial reports. Factors to consider in relation to asset values, liabilities and assessments on solvency and going concern may include “business and economic factors”, “industry specific factors”, “government initiatives, assistance and support”.²

In the current environment, issuers need to make significant judgments and estimates that are subject to greater uncertainty than usual. IOSCO understands the difficulty in preparing financial statements in an evolving and uncertain environment, with potentially imperfect information that could change after financial information is made publicly available. Nevertheless, we remind issuers of their responsibility to use the best available information in making well-reasoned and supported judgements and estimates that take in account the impacts of the COVID-19 pandemic, the guidance issued by standard setters and the government relief and support measures available in each jurisdiction. For example, cash flow projections based on reasonable and supportable assumptions may require management’s best estimate of the range of economic conditions that will exist over the remaining useful life of an asset.³

¹ IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality, 17 January 2019,

² Other factors are “impact on customers”, “borrowers and lessees”, “impact on supply chains”, “exposures to foreign operations, transactions and currencies”, “short-term versus long-term conditions”, “duration of containment measures and business closures”, “impact on short-term operating cash flows”, “debt refinancing, borrowing covenants, lender forbearances and liquidity support”, “modifications of debt and lease contracts”, “capital raising” and “management plans in response to the crisis”. This list is not intended to be exhaustive and there may be other factors to consider in the facts and circumstances of individual issuers.

³ See IAS 36 *Impairment of Assets*, paragraph 33 Basis for estimates of future cash flows in measuring value in use.



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Given the greater degree of difficulty that may exist in determining various financial statement amounts in the current environment, it is important that issuers utilize appropriate skills and competencies in areas such as fair value measurement, impairment assessments. Issuers may wish to consider whether additional expertise is needed to assist management in fulfilling their responsibilities to prepare financial reports. In general, IOSCO members would not expect to object to reasonable and good-faith judgements. IOSCO observes that it is the issuer's responsibility to develop reasonable good-faith judgements.

Importance of transparent and complete disclosures

IOSCO notes that, particularly in an environment of heightened uncertainty, it is important that financial reporting include disclosures that provide an adequate level of transparency and is entity-specific regarding uncertainties inherent in judgments and estimates. Disclosures should explain the material impact on specific assets, liabilities, liquidity, solvency and going concern issues as relevant and any significant uncertainties, assumptions, sensitivities, underlying drivers of results, strategies, risks and future prospects. Telling the story in a clear manner through the financial statements and management commentary is important to investors' information needs and confidence. Issuers should not limit disclosures to boilerplate discussion on COVID-19 itself, but to explain; (i) how COVID-19 impacted and/or is expected to impact the financial performance, financial position and cash flows of the issuer, (ii) how the strategy and targets of the issuers have been modified to address the effects of COVID-19 and (iii) measures taken to address and mitigate the impacts of the pandemic on the issuer.

Challenges that an issuer faces will differ from one issuer to another depending on its specific circumstances such as the jurisdiction and industry that it operates in, but some of the common areas that may involve significant judgements and estimates in light of COVID-19, and thus need greater transparency in disclosures (potentially including forward-looking information), are:

- Assessment of the impact of COVID-19 on the historical financial information and non-financial information, including future outlook, which comprise the company's current



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financial and operating situation, and how its operations and financial condition may change in the near and longer-term;

- Going concern assessments, including management’s plans to mitigate the uncertainty;
- Significant judgements and estimates regarding:
 - Assessment of goodwill and other nonfinancial assets for impairment
 - Fair value measurements using significant unobservable inputs
 - Impairment of financial assets including application of accounting for Expected Credit Loss;⁴
- Forward looking information may be needed in these areas to project future cash flow or earnings scenario analysis, an important tool in an environment of heightened uncertainty, might be relevant in projecting future cash flows; and
- Subsequent events

Non-GAAP Financial Measures

Non-GAAP financial measures, also referred to as Alternative Performing Measures (APMs), can be useful to investors when they provide additional insight into an issuer’s financial performance, financial condition, and cash flow. However, an inappropriate use of Non-GAAP financial measures has always been a cause of concern to IOSCO, particularly, when non-GAAP financial measures are presented inconsistently from period-to-period, defined inadequately, or are used to obscure rather than supplement financial information determined in accordance with the applicable accounting framework.

In the current environment, it is particularly important that issuers be mindful of the elements of reliable and informative non-GAAP financial measures that are not potentially misleading.⁵ Given the uncertainty in the current environment, issuers should carefully evaluate the

⁴ IOSCO Statement on Application of Accounting Standards during the COVID-19 Outbreak, 3 April 2020.

⁵ More information on elements of useful non-GAAP financial measures can be found in IOSCO’s Statement on Non-GAAP Financial Measures, 7 June 2016.



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appropriateness of an adjustment or alternative profit measure. Not all COVID-19 effects are non-recurring and there may be a limited basis for management to conclude that a loss or expense is non-recurring, infrequent or unusual (i.e., not all COVID-19 effects are non-recurring). This includes where the impacts of COVID-19 cross over a balance date. It could be misleading to describe an adjustment as COVID-19 related, if management does not explain how an adjusted amount was specifically associated with COVID-19. For example, we caution issuers from characterizing an impairment as COVID-19 related, where indicators of impairment existed prior to the pandemic that are unrelated to COVID-19. Additionally, characterizing hypothetical sales and/or profit measures (e.g., had it not been for the effect of COVID-19 the company's sales and/or profits would have increased by XX%) as non-GAAP financial measures would not be appropriate.

Interim reports

Issuers also are reminded that interim financial reporting is intended to provide an update focusing on changes in the entity's financial position and results of operations since the last annual period. In the current environment, many issuers will find that circumstances have changed significantly which will require more robust disclosures of material information and management's response to the changing circumstances.

While requirements for interim reports may contain fewer required disclosures than is the case for annual reports, where an interim report is the first report to be published since the COVID-19 pandemic, it will be relevant to include more detailed disclosure on these matters and their material effect on the issuer.

Auditors that are involved in interim reporting, should carefully consider their reports, and communicate clearly, in accordance with the professional standards, about the extent of assurance they provide, as well as any relevant findings and opinions.



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Implications for the annual audit

While we understand external auditors face challenges in the current environment, the auditor remains responsible for performing a high quality audit in accordance with professional standards. Given the uncertainties resulting from the COVID-19 pandemic, investors and other stakeholders may rely even more than normal on the opinion and additional information provided by auditors.

For annual reporting, the external auditor's report may also provide additional information to investors during the COVID-19 pandemic. Auditors are reminded of their responsibilities to report on Key Audit Matters (KAM),⁶ including a description of how the auditor addressed these matters. Additionally, there may be circumstances for which the auditor concludes that the audit report should contain an emphasis of matter paragraph or a material uncertainty relating to going concern paragraph. Auditors should modify their reports when the standards require to do so (e.g., if there is a material uncertainty about the entity's ability to continue as going concern and this uncertainty has not been adequately indicated in the notes or the management commentary). In this regard, IOSCO reminds external auditors of their responsibility to communicate with management and audit committees (or TCWG) and to evaluate the adequacy and transparency of disclosures provided in the financial statements.

Filing deadlines extended in many jurisdictions

Reporting processes may take additional time due to remote work arrangements, travel restrictions and other impacts of COVID-19. In response to the current situation, regulators in some jurisdictions have provided an accommodation that allows issuers an extended period to prepare and issue their financial information. When considering such extensions, issuers should balance the needs of investors with the responsibility for providing timely and comprehensive financial information that includes reasonable and supportable judgements, and on the other hand investors and other stakeholders are expected to pay more attention to issuers' situation.

⁶ For audit reports prepared in accordance with International Standards on Auditing



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Where more time is taken, issuers should consider informing the market about the reasons for the delay, how the matters will be addressed and the expected reporting date.

IOSCO interaction with other stakeholders

During this unprecedented difficult time, IOSCO has been actively engaged with international standard setting bodies as well as other regulators across the globe regarding the financial reporting issues caused by the COVID-19 pandemic. We will continue to collaborate with these bodies and remain fully committed to supporting the provision of high quality financial information to investors especially in the time of uncertainty resulting from the COVID-19 pandemic.

In conclusion, IOSCO reminds issuers, audit committees (or TCWG), and external auditors of the important role each plays in providing investors with high-quality, reliable, timely, and transparent financial information, especially in times of heightened uncertainty. It is the responsibility of management to develop well-reasoned and supportable estimates, establish and maintain effective internal controls over financial reporting, provide reliable financial information and transparent, entity-specific disclosures about the current and potential future effects on the issuer from COVID-19. Audit committees and/or TCWG are responsible for oversight of the issuer's financial reporting and the external audit process. And, it remains the responsibility of the external auditor to perform high-quality assurance services in accordance with professional standards on the financial information with which they are associated.