

FRC Publishes Thematic Review of Company Disclosures During the Coronavirus (COVID-19) Pandemic

23 July 2020

The coronavirus (COVID-19) pandemic hit in the middle of the annual corporate reporting season, with a large number of UK listed companies in the midst of releasing preliminary results announcements and publishing their annual report and accounts.

Over the last four months UK regulators and industry bodies such as the Financial Conduct Authority (FCA) and the Financial Reporting Council (FRC) have announced a raft of temporary measures and guidance to assist UK listed companies in meeting their reporting obligations.

On 21 July 2020, the FRC announced that it had completed its first [thematic review of company reporting](#) since the onset of the coronavirus (COVID-19) pandemic.

The FRC review found that although companies provided sufficient information to enable an understanding of the impact coronavirus (COVID-19) had on their performance, position and future prospects, some would have benefited from more extensive disclosure, particularly interim reports.

This memorandum provides a brief reminder of some of the key guidance published by the FRC and FCA in recent months, including the FRC's latest thematic review of company reporting.

[Regulator guidance on listed company reporting](#)

In addition to the FCA extending temporarily the deadlines for listed companies to publish [annual report and accounts](#) and [half-year financial reports](#) and providing related [guidance](#), the FCA and FRC have published guidance and commentary for listed companies and their advisers on various aspects of corporate reporting, including in relation to going concern statements, preparing financial statements, interaction with auditors and gathering audit evidence, handling and disclosing inside information, and reporting considerations more generally under current circumstances. This includes the following:

- **FCA Primary Market Bulletin No. 27.** The FCA published [Primary Market Bulletin No. 27](#) in mid-March, focusing on a wide range of issues arising in light of the coronavirus (COVID-19) pandemic and affecting UK listed companies.
- **FCA commentary on going concern statements.** In [Primary Market Bulletin No. 28](#), the FCA acknowledged that UK listed companies may have concerns about how to address coronavirus-related uncertainties in 'going concern' assessments, particularly where an auditor's review of the directors' going concern assessment may highlight a requirement for the auditor to include remarks in its opinion. The FCA emphasized that in current circumstances it is likely that more companies' financial statements will need to include such disclosure; investors must be properly informed as to the impact of coronavirus (COVID-19) and therefore companies and their auditors should be clear and transparent on such impact; and investors should not draw unduly negative inferences from such disclosure and should take into account the unique circumstances.
- **FRC guidance on audit evidence gathering and reporting.** On 16 March 2020, the FRC published guidance that focused on the audit of companies. The FRC was concerned to ensure that the current situation did not undermine the quality of audits and encouraged auditors to look at developing alternative audit procedures to gather sufficient and appropriate evidence. It noted that auditors will need to consider the impact of the pandemic on their assessment of risk, how sufficient and appropriate evidence is gathered and the work of component auditors is reviewed,

their assessment of going concern and prospects of a company, and the adequacy of management disclosure on the company's prospects.

- **FRC audit firm guidance to overcome challenges in obtaining audit evidence.** As part of the 26 March 2020 joint statement with the FCA and the PRA, the FRC issued further **practical guidance for auditors**. The guidance provides a non-exhaustive list of factors auditors should consider when carrying out audit engagements in the current circumstances, along with guidance on how they might be addressed. This includes guidance on communicating with audit committees, access to audit evidence, scope limitations to audit opinions, going concern assessments and setting materiality levels.
- **FRC guidance for companies preparing financial statements.** In addition, as part of the same joint statement, the **FRC issued guidance** for companies in preparing financial statements and maintaining strong corporate governance in the face of the coronavirus (COVID-19) pandemic.

FRC thematic review of company disclosures during the coronavirus (COVID-19) pandemic

Building on the guidance contained in the **joint statement of the FCA, FRC and PRA**, the FRC's thematic review of a sample of March interim and annual reports and accounts includes guidance and better practice examples for companies currently preparing their annual and interim accounts in order to improve their disclosure.

The FRC acknowledges that the guidance and examples in the thematic review may be superseded more quickly than in previous thematic reviews given the nature of the rapidly evolving environment created by the pandemic and the fact that disclosures will develop as more interim and annual reports covering longer coronavirus (COVID-19) impacted periods are published.

In addition to building on the guidance contained in the **joint statement of the FCA, FRC and PRA**, the review complements the two reports published by the Financial Reporting Lab on 15 June 2020 (**Covid-19 – Going concern, risk and viability** and **Covid-19 – resources, actions and the future**), which provide practical guidance to companies on areas of reporting that are especially important to investors.

In the thematic review, the FRC reminds companies that they should:

- explain the significant judgements and estimates made in preparing their accounts and provide meaningful sensitivity analysis or details of a range of possible outcomes to support any disclosed estimation uncertainty;
- describe any significant judgements made in determining whether there is a material uncertainty about their ability to continue as a going concern;
- ensure that assumptions used in determining whether the company is a going concern are compatible with assumptions used in other areas of the financial statements;
- apply the requirements of IAS 1 to any exceptional or similar items, with income statement sub-totals comprising only items recognised and measured in accordance with IFRS;
- apply existing accounting policies for exceptional and other similar items to coronavirus (COVID-19) related income and expenditure consistently and should not split income and expenses between coronavirus (COVID-19) and non-coronavirus (non-COVID-19) financial statement captions arbitrarily; and
- prepare interim reports that provide sufficient information to explain the impact that coronavirus (COVID-19) has had on their performance, position and future prospects.

The FRC notes in the thematic review that overall, the best disclosures were those that were specific to the company and which provided additional information that clearly explained how coronavirus (COVID-19) had impacted the company's reported position and performance and how it may affect future prospects.

The FRC encourages preparers to consider carefully the findings of their review when preparing their forthcoming interim and annual reports. Companies should aim to ensure that not only mandatory disclosure requirements have been met but that sufficient explanations have been included within the financial statements to enable a user to understand how coronavirus (COVID-19) has affected both the amounts presented and the company's future prospects.

Looking ahead to H2 2020

Together with the unprecedented level of action and guidance from regulators and industry bodies over recent months, this latest FRC thematic review, drawing on practical examples, should provide further helpful guidance and good practice recommendations for companies and investors preparing financial reporting disclosures during the second half of 2020, whether for ordinary course corporate reporting or in the context of transaction-specific disclosures, for example in prospectuses and other disclosures related to capital raising activity.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

Dan Hirschovits	+44 20 7418 1023	dan.hirschovits@davispolk.com
Will Pearce	+44 20 7418 1448	will.pearce@davispolk.com
Simon Witty	+44 20 7418 1015	simon.witty@davispolk.com
Fiona Tregeagle	+44 20 7418 1441	fiona.tregeagle@davispolk.com
Jack Kelly	+44 20 7418 1064	jack.kelly@davispolk.com