BDO KNOWS

COVID-19 – Accounting, Reporting and Other Related Considerations

MARCH 2020

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Background

This guidance can be supplemented with further information and content available for use at BDO's COVID-19 Resource Center.

The novel coronavirus (COVID-19) outbreak is a serious and unprecedented public health threat. It has interrupted the movement of people and goods throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The resulting impact on financial reporting will be significant.

Significant development and spread of COVID-19 did not take place until January 2020. At December 31, 2019, only certain events and associated actions had taken place, such as the Wuhan Municipal Health Committee's issue on December 30, 2019.

Although cases were reported to the World Health Organization (WHO) on December 31, 2019, the WHO did not announce the coronavirus as a global health emergency until January 30, 2020, which prompted national governments to begin putting actions in place to slow the spread of COVID-19. In addition, significant measures taken by the Chinese government and by private sector organizations did not take place until early 2020. Subsequent market disruptions in February 2020 confirmed the significance of the January developments.

STATUS

Effects of the coronavirus outbreak are still developing daily.

ACCOUNTING IMPACT

Widespread asset impairments along with a myriad of effects on other financial statement line items; potential effect on going concern.

Based on the timing of these events, for calendar year-end companies, the effects of the coronavirus represent a subsequent event that is not expected to impact amounts recognized in the year-end financial statements (i.e., a non-recognized subsequent event). Accordingly, forecasts, projections, and associated assumptions used in preparing financial statements as of December 31, 2019 would reflect either little or no change solely as a result of the coronavirus outbreak. However, debt classification may be impacted, as discussed below.

For reporting periods ended on or ending after January 31, 2020, the effects of the novel coronavirus need to be incorporated into the preparation of financial statements.

The effects of the novel coronavirus may be widespread and relate to many industries; they are not limited only to entities operating directly in the travel and tourism industry (e.g., airlines, tour operators, etc.). COVID-19 may affect entities in nearly every sector, due to the following and other impacts:

- Reduced consumer demand for goods and services due to lost income and/or restrictions on consumers' ability to move freely;
- Disruption of global supply chains due to restrictions placed on the movement of people and goods;
- Lack of investment in capital improvements and construction, reducing demand for many goods and services; and
- Reduction in market prices for commodities and financial assets, including equity and debt instruments.

The financial reporting implications for entities may be similarly broad, and the precise effects will depend on the facts and circumstances of each entity. As time elapses and the effects of the outbreak change and evolve, it may become difficult to distinguish which information and facts and circumstances should be incorporated into measurement as of period end and which should result in potential subsequent events disclosure.

Accounting and Financial Reporting

The following are financial reporting and accounting considerations that entities need to consider. As noted above, for entities with year-ends of or prior to January 30, 2020, the effects of COVID-19 represent a subsequent event that is not expected to impact amounts recognized in the year-end financial statements (i.e., a non-recognized subsequent event). Accordingly, forecasts, projections, and associated assumptions used in preparing financial statements as of December 31, 2019, would reflect either little or no change solely as a result of the coronavirus outbreak. However, debt classification may be impacted as noted in the table.

Considerations for December 31, 2019 Year-End Financial Statements* * Includes year-ends through January 30, 2020	**Considerations for January 31, 2020 Year-End and later Financial Statements**
Treat COVID-19 as a non-recognized subsequent event, as follows:	**Treat COVID-19 as a recognized event, and incorporate the effects in the financial statements, including recognition, measurement, and disclosure, as follows:**
▶ Include subsequent events disclosures, to the extent significant, in the financial statements • See Financial Statement Disclosures - Subsequent Events below for additional information • See example disclosures below	▶ See accounting guidance on recognition, measurement, and disclosure below • As a best practice, consolidate the disclosure impacts of COVID-19 into a single footnote (even if the footnote references detailed disclosures in other sections of the financial statements)
▶ If the potential effects on the financial statements in subsequent periods are material, and significant to users' understanding of the financial statements, auditors will likely consider adding an emphasis of matter (EOM) paragraph to the opinion on the financial statements	▶ If the effects on the financial statements are material, and significant to users' understanding of the financial statements, auditors will likely consider adding an emphasis of matter (EOM) paragraph to the opinion on the financial statements
▶ Consider the impacts of COVID-19 on debt covenants. If covenant violations are expected, consider classification of the debt as current ▶ See Accounting Considerations - Debt below for additional information	▶ Consider the impacts of COVID-19 on debt covenants. If covenant violations are expected, consider classification of the debt as current ▶ See Accounting Considerations - Debt below for additional information
▶ If the impact of COVID-19 is expected to result in going concern issues, include the effects in the financial statements, and address the going concern issue in the disclosures.	▶ If the impact of COVID-19 is expected to result in going concern issues, include the effects in the financial statements, and address the going concern issue in the disclosures.

Considerations for December 31, 2019 Year-End Financial Statements* * Includes year-ends through January 30, 2020	Considerations for January 31, 2020 Year-End and later Financial Statements
▸ Auditors will need to assess potential impact on the audit opinion. ▸ See Financial Statement Disclosures - Going Concern below for additional information.	▸ Auditors will need to assess potential impact on the audit opinion. ▸ See Financial Statement Disclosures - Going Concern below for additional information.

SEC Registrant Disclosure Considerations

In February 2020, the SEC and the PCAOB issued a joint statement that included discussion about the effects of COVID-19 on financial reporting. The statement acknowledged this is a dynamic situation and the effects on an individual entity may be difficult to predict. Entities were urged to ensure their financial reporting is robust in light of current circumstances. The joint statement specifically emphasized the need to consider subsequent events disclosures in the footnotes to the financial statements. See below for a discussion regarding subsequent events disclosures.

In addition to the guidance in this joint statement, entities should consider whether their upcoming filings (i.e., annual reports on Form 10-K and quarterly reports on Form 10-Q) should address potential impacts of COVID-19. At the 2019 AICPA Conference on Current SEC and PCAOB Developments, representatives from the SEC emphasized that if entities expect the impact of evolving risks to be material, they should consider disclosing how management assesses and manages risk, as well as the Board's role in oversight of risk.

Entities need to continue to review and revise their disclosures as risks evolve. COVID-19 has the potential to impact several areas of an entity's filing, including:

- *Business*
  This section focuses on a description of an entity's business and how it operates. It may also include discussion of recent events, competition, regulation, and seasonality. COVID-19 may have caused an entity to change the way a business operates, may have caused temporary closures, and could even result in an entity deciding to liquidate assets or a business. If an entity has changed how the business operates, or if the entity plans to make changes in response to the conditions created by COVID-19, the disclosures should address such changes.
- *Risk Factors*
  This section should include information about the most significant risks an entity faces. Some of these risks may relate to the overall economy, some to the industry or geographic area in which an entity operates, and some may be unique to the entity itself. Entities may have already included general risk factors that address natural disasters or geopolitical matters; however, COVID-19 may present more specific risks that entities should consider explicitly disclosing.
- *Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)*
  This section typically focuses on the entity's perspective on the business results, where the entity tells its own story. Known trends and uncertainties that have had, or are expected to have, an unfavorable effect on revenues or income should be discussed. The impacts of COVID-19 may present known trends for certain types of organizations, such as those in consumer-facing industries (e.g., travel, hospitality, retail, etc.), and will likely present a myriad of uncertainties for other organizations. Entities that have experienced material effects to date, or reasonably expect a material impact in the future, on their financial condition, results of

operations, or liquidity due to COVID-19 should include robust discussions of these circumstances. Entities should also consider whether the impacts of COVID-19 necessitate early warning disclosures regarding potential impairments or other charges, as well as impacts to revenues, gross profit margins, net income, and financial arrangements that might be expected.

- *Quantitative and Qualitative Disclosures about Market Risks*
  This section should focus on an entity's exposure to market risks, such as interest rate risk, credit risk, foreign currency risk, and commodity price risk, and how the entity manages these risks. COVID-19 has caused significant market disruptions, temporary business closures, and significant market volatility. Entities should consider disclosing how these issues are affecting the entity, and how they are managing these risks.

COVID-19 has impacted many organizations in a variety of ways, such as supply chain disruptions, temporary closures, loss of revenue from customers, work stoppages, production or construction delays, losses of contracts, defaults by customers, etc. Entities should consult with their legal counsel and auditors about the appropriate disclosures given their specific facts and circumstances.

Filing Relief for Registrants Impacted by the Coronavirus and Disclosure Guidance

As previously communicated in our SEC Flash Report **2020-03**, the SEC provided conditional relief for registrants that are impacted by COVID-19 and are unable to file on a timely basis (the "order"). On March 25, 2020, the SEC issued a **new order** extending the due date by 45 days to file certain SEC disclosure reports, such as Forms 10-K or 10-Q. The exemptions granted related to reporting and proxy delivery requirements for registrants and the new order had modified exemptions to now cover filings due between March 1, 2020 and July 1, 2020. Registrants must disclose why they were unable to file on a timely basis.

Additional steps must be taken to take advantage of the extension, including a requirement to furnish a Form 8-K by the original reporting deadline, which includes the following information:

1. A statement that the registrant is relying on the SECs exemptive order that provided the relief;
2. A brief description of the reasons why the registrant cannot file on a timely basis;
3. The estimated date the registrant expects to file;
4. If appropriate, a risk factor explaining the impact of the coronavirus on the registrant's business (if material); and
5. If the reason the registrant is unable to file relates to a person other than the registrant, the Form 8-K must include an exhibit signed by that person containing the specific reasons why that person is unable to provide its opinion, report, certification, etc.

Entities are still permitted to rely on the grace period in Exchange Act Rule 12b-25 to receive additional time to file the report (fifteen calendar days for an annual report and five calendar days for a quarterly report). Companies that take advantage of the extension or the grace period permitted by Rule 12b-25 will still be considered current and timely Exchange Act filers for purposes of Form S-3 and Form S-8 eligibility.

The SEC Division of Corporation Finance (Corp Fin) also issued **Disclosure Guidance Topic No. 9** which provides the SEC staff's views on disclosures and securities law obligations that registrants should consider related to COVID-19, including business and market disruptions. The SEC Corp Fin staff recognizes that information related to COVID-19 is continuously evolving and that registrants may be unable to currently predict the impact on their business, financial condition, and results of operations. However, the SEC Corp Fin staff expect registrants to disclose:

- The impacts COVID-19 has had on the registrant's business;
- Management's expectations of its future impact and management's response; and

- Management’s plans for addressing related uncertainties.

Disclosures should be specific to the registrant and are those that have a material impact. Consideration should be given to whether such disclosures involve forward-looking information to ensure that the information is provided in a manner that maintains the safe harbors under the Securities Act and the Exchange Act.

The staff of Corp Fin also reminded registrants to consider the requirements of trading activities by the officers and directors and other insiders of the registrant who have access to material non-public information that impacts the registrant, before that information is disclosed publicly. Registrants were also reminded of S-K Regulation G and Item 10 requirements on non-GAAP measures and to proactively address financial reporting matters.

For additional information, refer to the SEC’s **exemptive order**.

Financial Statement Disclosures

DISCLOSURE OF LOSS CONTINGENCIES

ASC 450, *CONTINGENCIES*

When there is at least a reasonable possibility that a loss has been incurred, disclosure of the nature of the contingency is required, as well as an estimate of the possible loss or the range of possible losses (or a statement that such an estimate cannot be made). When a loss occurs (or may have occurred) after the balance sheet date, but before the financial statements are issued, it should be evaluated as a subsequent event. See the Subsequent Events discussion later in this document for additional considerations.

CASH FLOW STATEMENT PRESENTATION OF INSURANCE PROCEEDS

ASC 230, *STATEMENT OF CASH FLOWS*

Insurance proceeds, such as business interruption insurance, are classified based on the nature of the insurance coverage rather than the intended use of the proceeds. Accordingly, amounts received for business interruption are presented as operating activities.

In addition, when cash proceeds from insurance are significant, SEC registrants should disclose where the proceeds are classified in the statement of cash flows and discuss the insurance proceeds or settlements in MD&A. The discussion should include a description of the proceeds or settlement, why it was received, planned use for the receipts, and any impact to reported earnings.

RISKS AND UNCERTAINTIES DISCLOSURES

ASC 275, *RISKS AND UNCERTAINTIES*

Risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term or the near-term functioning of the reporting entity should be disclosed. Risks and uncertainties can stem from the nature of an entity's operations, the use of estimates in the preparation of the financial statements, or significant concentrations in an entity's operations.

Many entities' operations have been affected by COVID-19, though the extent varies. If information comes to light prior to the issuance of the financial statements (or the financial statements being available to be issued) that it is at least reasonably possible that significant estimates will change in the near future and the change would be material, entities should add incremental disclosure.

As described below in the Accounting Considerations section, there are many financial statement areas that could potentially be affected by COVID-19 – most of which involve impairment or valuation analyses. Supply chain disruptions, temporary work stoppages, business closures, and reduced sales volumes are all examples of potential impacts from COVID-19 that may impact significant estimates and would warrant incremental disclosure.

Entities may have concentrations that present greater risk to the financial condition or results of operations, such as customers, suppliers, geographic locations, products, etc. When an entity is aware that a concentration exists that makes it vulnerable to a risk of loss in the near term and it is at least reasonably possible that events or circumstances may occur that could cause a severe impact in the near term, incremental disclosure is required. If an entity has a concentration in an activity or areas affected by COVID-19 (i.e., travel-related business facing temporary closure, supply chain disruption from a major supplier, significant change in customer buying behaviors or cancelling of orders, etc.), disclosure of the potential near-term impact should be disclosed.

These disclosures are essentially "early-warning" disclosures designed to draw attention to areas of risk or known trends or uncertainties. These disclosures are similar to the SEC's requirements to discuss known trends or uncertainties within MD&A, as well as to provide "early-warning" disclosures in the disclosures of critical accounting estimates.

GOING CONCERN

ASC 205-40, *PRESENTATION OF FINANCIAL STATEMENTS – GOING CONCERN*

Management is required to evaluate an entity's ability to continue as a going concern for at least one year after the financial statements are issued (or available to be issued). If management concludes there is substantial doubt, then disclosure in the financial statements is required, even if management's plans alleviate that substantial doubt.

Due to the outbreak of COVID-19, entities may face extended closures, reduced access to customers, supply chain disruptions, difficulty collecting from customers and other counterparties, or other events that negatively affect operating cash flows and liquidity. The current uncertainty continues to evolve and will make it difficult for entities to evaluate the impact on an entity's ability to obtain, extend, or renew credit agreements, or they may experience loan covenant violations. There is also uncertainty about access to other sources of capital. These types of events will need to be considered in an entity's going concern analysis.

SUBSEQUENT EVENTS

ASC 855-10, *SUBSEQUENT EVENTS*

Prior to the issuance of the financial statements, all available information should be considered to evaluate whether it provides additional evidence about conditions that existed as of the balance sheet date, such as estimates. In these circumstances, this information may stem from conditions that have existed for some time but are just now emerging. If significant, the financial statements should be adjusted for this type of information. However, caution must be exercised to ensure that financial statements are not adjusted for events and conditions that did not exist as of the balance sheet date. If the additional information reflects new events or conditions, disclosure in the financial statements about the nature of the events and the potential impacts on the financial statements is appropriate to prevent the financial statements from being misleading.

For example, as many organizations are in the process of adopting ASC Topic 326, *Credit Losses*, care must be exercised when preparing the opening balance sheet adjustment upon transition at the beginning of the year. It is possible information may be received after the balance sheet date about factual conditions existing at the balance sheet date, such as a servicer's report about payment delinquencies or an appraisal about the fair value of loan collateral. Such information would be considered at the balance sheet date. In contrast, the economic events that took place subsequent to calendar year-end, such as economic and market volatility stemming from the COVID-19 outbreak, were not representative of current conditions as of December 31, 2019 and it is unlikely they would be considered reasonable and supportable in forecasts of future conditions as of that date. Such events are economic events that took place during the first calendar quarter of 2020 and should be included in the forecasts used to measure impairment during that quarter.

Accounting Considerations

COVID-19 has already had significant impacts to business activities around the globe and has caused severe market disruptions. This is an evolving situation that entities need to continually assess and analyze. There are many accounting areas that entities will need to evaluate to determine whether adjustments to the financial statements are required, or whether additional disclosures are necessary. This is particularly true with impairment assessments and valuations. The accounting guidance for impairments differ by the type of potential loss. The following discussion highlights some of the key financial statement areas that may be impacted by COVID-19.

LOANS AND RECEIVABLES

ASC 326, *CREDIT LOSSES*, ASC 310, *RECEIVABLES*, ASC 450, *CONTINGENCIES – LOSS CONTINGENCIES*

ASC 310-40, *RECEIVABLES – TROUBLED DEBT RESTRUCTURINGS BY CREDITORS*

Loans and receivables to entities impacted by COVID-19 may be at risk of non-performance. Additionally, a customer or borrower may be experiencing financial difficulty, and an entity may work with its customer to attempt to collect amounts due by restructuring the arrangement or offering concessions to the customer to mitigate expected losses.

Loans and receivables are measured for collectability through recognition of an allowance for doubtful accounts or an allowance for credit losses. For entities that have adopted ASC Topic 326, *Credit Losses*, expected losses should be recognized based on historical experience, current conditions, and reasonable and supportable forecasts. The impacts of COVID-19 may necessitate adjustments to these estimates, particularly the forecasts of expected losses.

Entities that have not yet adopted ASC Topic 326 are subject to ASC 310 and ASC 450-20. These entities recognize impairment of receivables and loans when losses are incurred, which is when it is probable that an entity will be unable to collect all amounts due according to the contractual terms of the arrangement. Impairment is measured based on the present value of expected future cash flows discounted at the receivable's or loan's effective interest rate, except that, as a practical expedient, impairment can be measured based on a receivable's or loan's observable market price or the fair value of the underlying collateral.

When a borrower is experiencing financial difficulty and the creditor grants a concession to the borrower, the restructuring should be accounted for, and disclosed as, a troubled debt restructuring (TDR). Such situations may arise, as customers may be experiencing temporary disruptions in cash flows from the impacts of COVID-19 that hinder their ability to make payments in accordance with the original terms of the receivable or loan. Entities will need to consider whether activities undertaken with borrowers to work through cash flow disruptions constitute a TDR, measure any TDR impairment, and provide the necessary disclosures for restructuring activities.

INVENTORY

ASC 330, *INVENTORY*

The effects of the outbreak may result in declines in sales or significant disruptions to supply chains. This is particularly true for perishable goods or seasonal inventories. Companies should evaluate their inventories for damage, spoilage, or obsolescence caused by the effects of the outbreak.

Inventory measured using any method other than LIFO or the retail inventory method (for example, inventory measured using first-in, first-out (FIFO) or average cost) shall be measured at the lower of cost and net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings in the period in which it occurs.

Inventory measured using the LIFO or the retail method should be adjusted to the lower of cost and market through current period earnings in the period when the utility of the goods is no longer as great as their cost.

Additionally, if production is decreased, entities must consider that fixed overhead is allocated based on 'normal capacity'. If an entity ceases production or significantly reduces production for a period of time, significant portions of fixed production overhead (e.g., rent, depreciation of assets, some fixed labor, etc.) will need to be expensed rather than capitalized, even if some reduced quantity of inventory continues to be produced.

INVESTMENTS

ASC 320, *INVESTMENTS*

With the recent market volatility stemming from the impacts of COVID-19, entities should evaluate the impacts of these severe market disruptions on the fair value of their investments when considering if those investments are impaired. Investments in debt securities may be negatively impacted by widening credit spreads, issuers of the debt securities may no longer be able to repay amounts owed, and market trading prices may be negatively affected. Investments in equity securities may have experienced significant declines in fair value, and equity method investments may have experienced challenges that indicate the investment may not be recoverable. There are several impairment models applicable to investments depending on the type of investment (i.e., debt securities vs. equity securities), an entity's classification of its investments (i.e., held-to-maturity or available-for-sale), facts and circumstances unique to the specific investment (i.e., equity securities without readily determinable fair values), as well as the effective date for the adoption of ASC 326, *Credit Losses*.

INDEFINITE-LIVED INTANGIBLE ASSETS

ASC 350-30, *INTANGIBLES – GOODWILL AND OTHER – GENERAL INTANGIBLES OTHER THAN GOODWILL*

Indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or circumstances indicate the asset might be impaired, by comparing the fair value of the assets to their carrying amounts (referred to as triggering events). To assess whether a triggering event has occurred, entities must consider events or circumstances such as macroeconomic conditions, industry and market conditions, cost factors that have a negative effect on earnings and cash flows, and overall financial performance. Because the COVID-19 situation continues to evolve, it is possible that triggering events could occur throughout the year, necessitating more frequent impairment assessments. This impairment assessment will need to be completed prior to the issuance of quarterly financial statements.

An entity may first perform a qualitative assessment to determine whether it is necessary to perform the quantitative assessment. An indefinite-lived intangible asset is initially tested for impairment before a larger asset group that includes the intangible asset is assessed for recoverability. The quantitative assessment involves comparing the fair value to the carrying value. If the fair value is less than the carrying value, an impairment is recognized.

Indefinite-lived intangible assets are tested for impairment prior to long-lived assets and goodwill.

LONG-LIVED ASSETS

ASC 360-10, *PROPERTY, PLANT AND EQUIPMENT*

Long-lived assets, such as property, plant, and equipment held for use, finite-lived intangibles, and right-of-use assets recognized under ASC 842, *Leases*, are tested for recoverability at the asset group level whenever events or circumstances indicate that the carrying amount of the asset group may not be recoverable. The impacts of COVID-19 may be such an event or circumstance. For example, commercial real estate held for use may be dependent on rent from tenants to operate. These tenants may have experienced extended closures, and thus significant reductions in cash flows and ability to pay rents. This could in turn trigger impairment of the asset. If the asset group is not recoverable, its carrying amount is reduced to its fair value. In this context, we note certain real estate sectors may require special consideration due to recent declines in consumer activity (e.g., the hotel and retail markets).

If an entity concludes that it will sell long-lived assets and the "held for sale" criteria are met, a loss should be recognized, if applicable, for a write-down of the disposal group to fair value. Entities will also need to consider whether long-lived assets that are held-for-sale continue to meet the criteria for this classification given current conditions.

Groups of long-lived assets are tested for impairment after indefinite-lived intangible assets, and before goodwill.

GOODWILL

ASC 350-20, *INTANGIBLES – GOODWILL AND OTHER – GOODWILL*

Goodwill is tested for impairment at the reporting unit level at least annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount (referred to as triggering events). To assess whether a triggering event has occurred, entities must consider macroeconomic conditions, industry and market conditions, cost factors that have a negative effect on earnings and cash flows, overall financial performance, events affecting the reporting unit, and sustained decreases in share price. COVID-19 has caused severe market disruptions, temporary business closures, supply chain disruption, increased risk of counterparties and customers not performing on their obligations, and volatile markets that have seen rapid declines unlike anything ever experienced in the United States. As a result, a triggering event may have occurred for many entities, particularly if a sustained stock price decrease has occurred over a reasonable period of time leading up to the date of the potential impairment.

Entities first qualitatively assess whether it is more likely than not that the fair value of the reporting unit is less than the carrying amount and, if so, a quantitative impairment analysis must be performed. The quantitative test involves comparing the fair value of the reporting unit to the carrying value. The effects of COVID-19 on market conditions may have direct or indirect effects of estimates of future cash flows and earnings that need to be considered in an impairment assessment. Additionally, once a triggering event has occurred, the goodwill impairment analysis should be completed before the financial statements are issued, including quarterly financial statements. As conditions continue to evolve due to global market and government reactions to COVID-19, triggering events may continue to occur throughout the year, which may result in more frequent assessments of impairment.

Goodwill is tested for impairment only after indefinite-lived intangible assets and other long-term amortizing assets, such as property and equipment and right-of-use assets, have been assessed.

OIL AND GAS RESERVES

ASC 932, *ASC 360 AND SEC REGULATION S-X 4-10*

The so-called "price war" related to oil prices began in March 2020 when members of OPEC failed to agree on production levels, which represents a non-recognized subsequent event as of the December 31, 2019 balance sheet date. This may lead to significant reductions in capital expenditures, raising impairment considerations in 2020. As such, affected entities will need to reevaluate their reserve estimates, including proved undeveloped reserves. Similarly, impairment analyses and rates used to record depreciation, depletion, and amortization will need to be revisited. We also expect disclosures of supplemental oil and gas information to be impacted by price declines.

TEMPORARY DIFFERENCES AND DEFERRED TAX ASSET VALUATION ALLOWANCES

ASC 740, *INCOME TAXES*

Book recognition of reserves, accruals, and impairments would likely impact the recognition and measurement of temporary differences and related tax accounting. Accordingly, careful consideration should be given to the following with respect to the accounting for income taxes in the period that book losses, reserves, and impairments are recognized:

- For entities with tax basis in goodwill, large deferred tax assets could potentially originate as a result of book goodwill impairments; as such, the future realization of such deferred tax assets should be assessed taking into consideration all available positive and negative evidence as of the reporting date.
- Entities that have historically depended upon reversing taxable temporary difference related to book intangibles with no tax basis as a source of income to realize existing deferred tax assets may find this source depleted as a result of impairments to the underlying book intangibles. In the entity's consideration of other sources of income, specifically future taxable income, the effects of COVID-19 on obtaining projected results should be considered.
- With respect to book impairments of nondeductible goodwill for tax purposes for which no deferred tax effect is recorded, consideration should be given to the treatment of the related impairment as a reconciling item in the computation of the annual effective tax rate or as a discrete item.
- For income tax purposes, uncollectible receivables can be deducted when they are considered "worthless." The worthlessness of a debt is a question of fact. Obsolete inventory can be deducted when it is no longer able to be used or sold in a "normal" manner and it is being disposed of through a liquidator or junkyard, a donation, or it is destroyed. Consideration should be given to any timing differences between book and tax treatment in addition to any uncertain tax positions that may arise.
- Entities that have historically asserted indefinite reinvestment in foreign operations should revisit this assertion, taking into consideration any contradicting evidence related to the parent or upstream entity's ability to service debt, meet working capital needs, or make required changes to infrastructure considering the economic impact of COVID-19.
- As new tax law emerges to address the economic impact of COVID-19, consideration should be given to the impact of such tax law changes in the period in which they are enacted.

DEBT

ASC 470, *DEBT*, ASC 470-50, *DEBT – MODIFICATIONS AND EXTINGUISHMENTS*, ASC 470-60, *DEBT – TROUBLED DEBT RESTRUCTURINGS BY DEBTORS*

Many entities are facing temporary closures to help contain the spread of COVID-19. This will likely result in disruptions of normal business operations, lost revenue, or reduced collections of customer receivables, all of which may negatively affect cash flow available to service debt. Further, many debt agreements include various covenants, some of which may be based on total assets, net income, cash flow, or equity – all of which may be negatively impacted in the current environment.

Debt payable within one year is presented as a current liability, while long-term debt generally refers to arrangements due more than one year from the balance sheet date, although certain exceptions exist. ASC 470-10-45 addresses several specific situations, including lock-box arrangements and subjective acceleration clauses.

Generally, a covenant violation occurring after the balance sheet date is considered a non-recognized subsequent event under ASC 855, which does not impact the classification of debt at the balance sheet date. However, that principle is subject to judgment when the "facts and circumstances indicate otherwise," as noted in ASC 470-10-45-1.

<u>As such, if a covenant violation occurs after the balance sheet date but before the financial statements are issued, we believe current classification would be required unless the entity obtains a waiver before the financial statements are issued, such that the lender is not able to require repayment for more than one year after the balance sheet date. If the issuance of December 31, 2019 financial statements is delayed, these scenarios may become more frequent.</u>

Similarly, if a covenant violation has not occurred prior to issuance, but it is probable the entity will violate a covenant within a year of the balance sheet date, judgment will be required to determine the appropriate classification. Entities are encouraged to consult with their advisers in these situations.

As entities work with lenders to address these potential issues, terms of debt arrangements may be modified to address covenant violations, or payment terms may be changed to alleviate cash flow burdens in the near-term. Entities may wish to conduct these lender negotiations in light of the going concern assessment period, which is typically one year after the financial statements are issued (as opposed to one year after the balance sheet date). Entities will also need to consider whether modifications are troubled debt restructurings. If they are not troubled debt restructurings, further analysis on whether the changes in terms should be accounted for as a modification or as an extinguishment will be required.

DERIVATIVES AND HEDGE ACCOUNTING

ASC 815, *DERIVATIVES AND HEDGING*

Supply chain disruptions, work closures, and potential curtailing of business activity may result in reductions, delays, or even cancellations of business transactions. If these forecasted business transactions were previously designated in cash flow hedge relationships, entities will need to determine whether these transactions are still probable of occurring to continue to apply hedge accounting. Additionally, entities will need to consider changes in counterparty credit risk to assess whether forecasted transactions are still probable of occurring. If the hedged transaction is no longer probable of occurring within the originally specified time period, hedge accounting should be discontinued prospectively. However, the related gains and losses in accumulated other comprehensive income should be reclassified in earnings only if it is probable that the forecasted transaction will not occur by the end of the period originally specified or within an additional two-months.

The impact of COVID-19 also may affect the eligibility for the "normal purchases and normal sales" scope exception to derivatives accounting for commodity contracts (e.g., oil and gas). This exception is based on physical delivery and if that is no longer probable due to curtailment or cancellation of operations such that the contract will now settle net, the eligibility for applying this scope exception would no longer be met. Consequently, the contract should be recorded on the balance sheet at its current fair value with changes in fair value recognized in earnings, like any other derivative.

The current response to COVID-19 may prompt legal questions about whether the market events mentioned above regarding the "normal purchases and normal sales" exception for commodity contracts constitute a force majeure, which is a legal basis for excusing non-performance and a right to terminate a contract. This is a legal question, so entities are encouraged to seek legal counsel in this area.

FAIR VALUE MEASUREMENTS

ASC 820, *FAIR VALUE MEASUREMENT*

There are many areas of U.S. GAAP that require the use of a fair value measurement. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. One of the key concepts in that definition is an orderly transaction, which is designed to differentiate between what is considered a fair value measurement vs. a distressed sale or a forced transaction.

Current market conditions are under extreme stress and may produce values that an entity may wish to disregard; however, it would only be appropriate to disregard market observable values or inputs to a fair value measurement if they were based on transactions that were not 'orderly' transactions. In addition, recent events are likely to impact credit risk in fair value measurements. This could affect a counterparty's ability to pay under receivable and derivative contracts, as well as the entity's own risk of nonperformance (e.g., if the entity reports its own debt at fair value).

REVENUE RECOGNITION

ASC 606, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

The consideration to which an entity is entitled from a revenue contract is assessed to determine if collectability is probable before the revenue standard is applied to the arrangement (part of Step 1). "Probable" means that collectability is likely to occur. The assessment is based on a customer's ability and intent to pay the amount of consideration under the contract, once those amounts become due, based on all relevant facts and circumstances. An entity's ability to collect the consideration due also considers methods to reduce the credit risk such as amounts that are prepaid or the ability of the entity to stop transferring goods or services to a customer if that customer fails to make payments when due. A reassessment of the criteria to determine if there is a contract, including collectability, is only done when there are indications of significant changes in facts and circumstances, which requires judgment. The current uncertainty may indicate that collectability under a revenue contract is no longer probable and thus the revenue model would not be applied to that contract.

Step 3 of the revenue model is to determine the transaction price. That includes determining whether there is any variable consideration and whether the amount of revenue recognized should be constrained. The effect of the constraint is that the estimated transaction price only includes the amount of variable consideration if it is probable that there will not be a subsequent significant reversal in the amount of revenue recognized at the point at which uncertainty over the amount of variable consideration is resolved. Entities will also need to evaluate whether changes in contract prices represent a modification of the transaction price or reflect impairment of a contract asset or accounts receivable.

Current market conditions may require companies to reevaluate both the collectability of contracts with customers and the amount of revenue that is recognized. When a customer no longer has the ability to pay for goods or services to be transferred, an entity reassesses the criteria in Step 1 of ASC 606 and may determine that the criteria are not met if the entity no longer believes that it will collect the consideration to which it will be entitled and thus would no longer recognize revenue for that contract. Accounts receivable for goods or services already provided for that customer would be evaluated for impairment in accordance with ASC 310, as noted above.

An entity may provide refunds or concessions to a customer that were not previously provided and thus the guidance on accounting for variable consideration will now need to be applied to those contracts. Prior estimates of receiving variable consideration will likely also need to be reevaluated, as circumstances that were previously predicted to occur may no longer be probable. For example, the possibility of refunding previously collected amounts will need to be considered.

These conditions may also necessitate that an entity reassess its estimates of variable consideration each period due to price concessions or other adjustments made to the transaction price to assist customers whose businesses are impacted by COVID-19 and whether the amount of revenue to recognize should change. The assessment of the transaction price, including estimations of variable consideration, is made at the start of a contract and then reassessed at each reporting date based on all reasonably available information. These judgments are required to be disclosed in the notes to the financial statements. Determining the amount of variable consideration that is not constrained is based on the significance of the potential reversal of cumulative revenue recognized, at the contract level, and the likelihood of that occurring. ASC 606 provides a list of factors to consider that increase the likelihood or magnitude of a revenue reversal.

Incremental costs to obtain a contract are recognized as assets when an entity expects to recover those costs. Costs to fulfill a contract (e.g., direct labor or materials, other costs chargeable to a customer) that are not subject to other ASC Topics are capitalized if they relate directly to a contract, generate or enhance resources of the entity used in satisfying a performance obligation, and are expected to be recovered. Costs to obtain or fulfill a contract that are capitalized are amortized over the period that the goods or services are transferred to the customer and are evaluated for impairment under either ASC 340-40 or for fulfillment costs capitalized in accordance with accounting guidance outside of ASC 606, such as ASC 330, *Inventory*, based on that guidance. The current economic environment may lead to additional impairment charges for contract assets where the carrying amount exceeds the amount of consideration the entity expects to receive in the future and that has been received but not recognized as revenue, and the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

LEASES

ASC 842, *LEASES*

Landlords may be offering concessions to lessees in the form of free rent, deferral of rent payments, or cash payments when operations of the lessee are interrupted or are significantly affected. A modification is a change to the terms and conditions of a lease that results in a change in the scope of or the consideration for a lease. Whether a landlord concession is a modification or a concession in accordance with the original lease will depend on the terms of the lease contract and enforceable rights and obligations of the lessee and lessor. For example, a lease contract may contain force majeure events requiring rent reductions or free rent periods. Landlord concessions that are considered modifications typically will be accounted for as a modification of the original lease (i.e., not as a separate contract) because the modification will not grant the lessee any additional right of use. The modification of an existing lease will require the lessee to remeasure and reallocate the remaining consideration in the contract; reassess lease classification; update the discount rate; and remeasure the lease liability and the carrying amount of the right-of-use asset. A lessor will make a similar determination to account for a lease modification as a modification of the existing lease and make appropriate changes to remeasure amounts recorded. Lease terminations (full or partial) will also need to be accounted for by the lessee and the lessor in accordance with ASC 842.

A key tenet of lessors' accounting for operating leases on a straight-line basis relates to a lessor's assessment that collection of the lease payments plus amounts to satisfy a residual value guarantee is probable. This assessment is performed at the commencement date and through the end of the lease term. If collection is not probable, lease income is limited to the lesser of the income recognized on a straight-line basis and lease payments collected by the lessee. In the current environment, lessors should exercise additional care in performing this collectability assessment.

Lessees should monitor whether there are any indications of right-of-use asset impairment; for example, a retail store that a lessee leases with an expected decrease in future cash flows from sales, or a warehouse leased on a long-term basis for which a lessee's plans may change (such as abandonment). Right-of-use assets are tested by lessees for impairment in accordance with ASC 360-10, noted above. Even if a right-of-use asset is not impaired, a lessee may have to reassess the useful life of the asset as appropriate (for example, when the right-of-use asset is part of a larger asset group that is not impaired, but the entity plans on abandoning the lease before the end of the initial lease term). In the current environment, lessees should exercise care in monitoring and timely identifying triggering events requiring impairment testing.

For lessors, the net investment in leases associated with sales-type and direct financing leases is accounted for within the impairment model under ASC 326, which is discussed above. Lessors will consider, among other things, the lessee's credit risk as it relates to cash flows related to the lease payments, along with cash flows expected from the unguaranteed residual asset following the end of the lease term. Lessors with operating leases will apply ASC 360 to measure any impairment on the long-lived assets. In the current environment, the level of judgment in assessing/determining impairments generally will increase.

A lessee and a lessor consider all relevant contractual provisions of a lease in determining the lease term at the commencement date, including renewal and termination options. Only those options that are reasonably certain of exercise by the lessee affect the initial measurement of the lease. A lessee then typically reassesses the lease term or a lessee purchase option only when a significant event or a change in circumstances that is within the lessee's control occurs, when the lessee elects an option previously not deemed reasonably certain of exercise (for example, a termination option), or when the lessee elects not to exercise an option it previously deemed reasonably certain of exercise (for example, a renewal option). In the current environment, lessees should exercise care in monitoring and timely identifying all events requiring a remeasurement of the lease.

A lessor does not reassess the lease term unless there is a modification that is not accounted for as a separate contract.

STOCK COMPENSATION

ASC 718, *COMPENSATION – STOCK COMPENSATION*

Share-based awards typically contain either a service, performance, or market condition for vesting, or some combination of conditions. The accounting for share-based payment awards will depend on the type of vesting conditions. Awards with performance conditions are accounted for when it is probable that the performance condition will be achieved. An entity reassesses the probability of achieving the performance condition at each reporting date. The achievement of certain performance conditions in the current environment may no longer be probable. For awards for which an entity had previously determined that the achievement of the performance condition was probable but now believe that it is not probable, the entity would reverse the compensation cost previously recorded and continue to assess the probability over the service period.

Due to the disruption to a business and the ability of a grantee to meet performance conditions as a result of the COVID-19 pandemic, entities may make modifications to share-based payment arrangements, such as extending vesting periods or changing the terms of vesting conditions, that need to be accounted for. Modification accounting is only applied when the changes to the fair value, vesting conditions, or classification of an award as liability or equity changes as a result of the change in terms. This will cause entities to have to measure the incremental fair value of modified arrangements (equity classified) and to assess the effect of the modification on the number of awards that are expected to vest. This may lead to entities recording additional compensation cost for awards and reconsideration as to whether original service or performance conditions are likely to be met. The accounting for share-based payment arrangements with performance or service conditions will be based on the type of modification. The fair value of a share-based payment award classified as a liability would be remeasured at the date of the modification.

For entities that estimate forfeitures of awards, the estimation is based on the number of awards for which it is probable that the requisite service period will be rendered, and those estimates are updated as new information becomes available. The amount of compensation expense that is recorded each period is at least equal to the grant-date fair value of the vested portion of the awards. Due to the uncertainty of the impact of COVID-19, entities will need to continuously reevaluate their forfeiture estimates for share-based payment awards.

BUSINESS INTERRUPTION INSURANCE RECOVERIES

ASC 225-30, *BUSINESS INTERRUPTION INSURANCE*

Many organizations have decided to close temporarily to help prevent the spread of COVID-19, which may cause lost revenue and serious disruptions to supply chains, resulting in losses. These losses may be covered by business interruption insurance and should be accounted for separately from other insurance proceeds. When losses incurred can be reasonably estimated and recovery is considered probable, a receivable for the expected insurance proceeds may be recorded. However, the amount recorded should not be greater than costs incurred to date. Therefore, proceeds for lost profits are treated as a contingent gain and typically recorded at the settlement date.

If business interruption insurance is received, entities may elect a policy for how such amounts are presented in the income statement, as long as it does not conflict with other applicable GAAP. The notes to the financial statements should disclose the nature of the event resulting in business interruption losses, the aggregate amount of business interruption insurance recoveries recognized during the period, and the line items in the income statement in which those recoveries are classified.

CONTINGENT LOSSES

ASC 450-20, *CONTINGENCIES – LOSS CONTINGENCIES*

Certain legal matters or other contingency accruals could arise as a result of the current economic environment or an entity's actions taken in response to COVID-19. Contingent losses should be accrued by a charge to income if it is probable that it has been incurred at the financial statement date and the amount of the loss can be reasonably estimated.

EXIT ACTIVITIES

ASC 420, *EXIT OR DISPOSAL COST OBLIGATIONS*

Due to market conditions stemming from COVID-19, entities may choose to sell or terminate a line of business, close locations, relocate business activities from one location to another, make changes in management structure, or undergo a fundamental reorganization that affects the nature and focus of operations. These activities represent exit activities accounted for under ASC 420, *Exit and Disposal Cost Obligations*. These costs include:

- Involuntary employee termination benefits pursuant to a one-time benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract.
- Costs to terminate a contract that is not a lease.
- Other associated costs, including costs to consolidate or close facilities and relocate employees.

A liability for a cost associated with an exit or disposal activity is recognized at fair value in the period in which the liability is incurred (except for a liability for one-time employee termination benefits that are incurred over time). If fair value cannot be reasonably estimated, the liability is recognized in the period in which fair value can be reasonably estimated.

A liability for costs that will continue to be incurred under an operating lease for its remaining term without economic benefit is recognized at the cease-use date.

Additionally, with respect to discontinued operations, the criteria in ASC 205-20-45 continue to apply, such that any assessments depend on conditions at the balance sheet date. As a non-recognized subsequent event, the COVID-19 outbreak would not be relevant to these determinations as of December 31, 2019.

Auditing Considerations

Audits play a vital role in underpinning and providing confidence in financial information about the businesses and institutions in our economies.

Even in these unprecedented circumstances, sufficient appropriate audit evidence will need to be obtained to reduce audit risk to an acceptably low level. In the current environment, there may be heightened and new risks of material misstatement and/or increased difficulty in obtaining sufficient appropriate audit evidence. Accordingly, auditors may not be in a position to form an opinion within previously established timetables.

There are likely to be implications for ongoing December 31, 2019 year-end audits, for January 1 to March 31, 2020 year-end audits, and possibly those later in 2020. The guidance below sets out possible implications and suggests potential responses that Audit Committees and management should factor into oversight and execution of financial reporting. It covers:

- Heightened and new financial reporting risks
- Obtaining sufficient appropriate audit evidence
- What to do if you cannot issue an unqualified audit report within established timelines
- Impact on disclosures and the auditor’s report

HEIGHTENED AND NEW FINANCIAL REPORTING RISKS

As noted in the Financial Statement Disclosures and Accounting Considerations sections above, there may be a heightened risk of misstatement for:

- The valuation of financial and non-financial assets, including inventory, accounts receivable, intangibles and goodwill
- Going concern and/or working capital assessment and disclosure
- Debt classification as current or noncurrent
- Disclosure of financial obligations and lending covenants
- Risk disclosures
- Subsequent events disclosures

OBTAINING SUFFICIENT APPROPRIATE AUDIT EVIDENCE

Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with audit teams. Likewise, auditors may be unable to work at audited entity sites or to travel, thereby potentially affecting the performance, review, and supervision of the engagement team, including that of component or other auditors.

Among other matters, consideration should be given to the following:

- Impact on the audited entity.
- Impact on group audits/cross-border work.
- Implications on obtaining signed engagement, management representation, and other letters.
- Alternative ways of working.

In particular, the auditors' responsibility to obtain sufficient and appropriate audit evidence when addressing the risk of material misstatement due to accounting estimates remains unchanged. Auditors follow the applicable auditing standards (PCAOB or U.S. GAAS), exercise appropriate levels of professional skepticism, and properly use professional judgment in reaching conclusions on management's use of accounting estimates.

These circumstances introduce increased complexity, new risks of material misstatement, and will likely result in auditors adjusting the scope of the audit or review. These adjustments will likely result in increased effort and cost.

IMPACT ON THE AUDITED ENTITY, ITS CONTROL ENVIRONMENT, AND ITS ABILITY TO PROVIDE INFORMATION

Auditors will need to update their understanding of the entity and adjust their audit plans as necessary. These updates will include:

- Understanding the impact of COVID-19 on the entity and any components through engagement with management and other personnel at the entity.
- Considering implications for the entity's control environment. For example, controls may not be operating as designed with respect to the year-end close process.
- Considering to what extent the entity's, and any component's, ability to prepare necessary information has been affected, and how it intends to obtain the information needed for the preparation of the financial statements.
- Understanding whether the reporting timetable has been set due to regulatory or other deadlines, such as reporting on covenants.
  - If it reflects entity preference only, a delay may the best option to allow management and auditors time to understand and address the changes and disruption resulting from the virus.
  - If the deadline is not a preference or arbitrary in nature, and the timeline cannot be reasonably met, auditors and management should engage in constructive dialogue to 1) revise the deadlines to ones that are achievable and 2) understand and have meaningful conversations with creditors and others who have set reporting deadlines for the client.

COVID-19 Impact to the Disclosures and Audit Reports

Disruption of operations, volatility, and uncertainty caused by the COVID-19 outbreak will result in most entities disclosing information about the negative impact to operations, potential impairments, future losses, and general uncertainty confronting their businesses. U.S. GAAP requires entities to disclose significant risks and uncertainties, as well as subsequent events. In addition, the auditor may consider it necessary to draw users’ attention to these disclosures by emphasizing the significant uncertainties or the unusually important subsequent events in the auditor's report ("emphasis paragraph"). An emphasis paragraph only refers to information presented or disclosed in the financial statements.

The analysis below provides a discussion of when disclosures of an uncertainty may be necessary due to the impacts of changes in the business environment arising from COVID-19. For example, if pending changes to forecasts will likely impact the GAAP assessments around going concern or recoverability of assets, the impact of those changes should be disclosed.

The framework below deals with disclosures of uncertainties and possible impacts on an entity’s disclosures.

Framework for consideration of entity disclosures around COVID-19

When an entity has known material curtailments at the balance sheet date, or prior to issuance of its financial statements, then the entity would likely need to disclose those matters in order to fairly present the financial statements so that investors have the material information. Such known curtailments may include, but are not limited to, one or more of the following:

- The entity’s customers may have reduced their demand for the product or service or may have cancelled non-enforceable contracts.
- The entity’s suppliers may have reduced their production or other ability to supply the entity with goods or services causing the entity to be unable to continue its revenue generating activities.
- The entity may not be able to perform ordinary reporting, administrative, and other functions due to constraints on how its workforce can perform their functions.
- Cash flows may be materially altered in the period since year-end, as a consequence of changes in travel, increased shut down of business locations, and intensified government actions in the U.S.
- While the entity may be able to continue its business, the customers or supply chains it depends on are or likely may no longer (be) as available as they were previously (for example, a third party seller that depended on Amazon as a market channel, or a provider of storage services where its existing and potential customers may no longer be able to continue or take up new services).
- Liabilities may be subject to debt covenants that no longer can be met due to other changes in cash flows, or to the entity being unable to provide financial information as required by the debt agreement.
- The potential impact of government actions, such as the Defense Production Act of 1950 (the so-called “War Powers Act”), which grants the federal government the power to direct the activities of a U.S. based business, on the entity. These impacts may be on the entity’s service or manufacturing capabilities and also may affect its customers or suppliers.

- The potential impact on entities that, through their trade groups or other collective bodies, have asked for government assistance, or of any conditions attached to assistance.

These circumstances may bring immediate impacts to entities that are already visible (e.g., employee lay-offs or reduction in business activity). These circumstances may also bring material uncertainties to other entities where the nature and the extent of the impact may be significant, but there is a material uncertainty as to the likelihood, timing, and/or extent of that impact.

In all these cases, the users of financial statements should be informed by virtue of disclosure by the entity of the known impacts, the expected impacts, and the possible impacts of uncertainties on the business in order for those users to make informed decisions about the information reported in the financial statements.

While each entity's circumstances may differ, the users need to be informed of the uncertainties. Where an entity concludes there is likely no impact, it would be advisable to provide that disclosure, so users understand management's assessment.

Potential impact to the auditor's report and related disclosures

In addition to known uncertainties in certain industries (see below), each auditor is required to assess the entity specific circumstances to determine if its circumstances indicate the presence of a material uncertainty that is of such significance to the users' understanding of those financial statements that an emphasis paragraph in the auditor's report drawing attention to that disclosure may be appropriate. Such an emphasis paragraph does not modify the auditor's opinion; it merely draws users' attention to the disclosure.

In light of the pandemic, BDO is of the view that we will consider adding an emphasis paragraph when an entity has experienced a direct material impact, or expects to experience a direct material impact, that we believe to be highly significant to the understanding of users of the financial statements.

In some circumstances, the need to include an emphasis paragraph is apparent; in other cases, it is a matter of professional judgment.

An example of an emphasis of a matter paragraph is as follows:

> **Emphasis of a Matter – COVID-19**
>
> *As more fully described in Note X to the financial statements, the Company [has been negatively impacted] [may be materially impacted] by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020.*

Industries where significant uncertainty exists

While each entity will need to assess its own circumstances, there are some industries where the observable curtailment and related uncertainty is of such significance that, in many cases, the auditor may determine that the auditor's report should draw a user's attention to that disclosure.

Some examples include:

- Cruise line operators
- Airlines and other transportation operators
- Retail establishments that are not able to continue to operate normally
- Hospitality and Leisure companies

- Restaurants
- Sports and Entertainment
- Museums, Art Galleries, Event Space and Conference Organizers

These industries are faced with an experienced and known reduction in revenue generating activities. That reduction is in almost all cases acute.

Many of these industries are seeking government relief or other adjustments in order for them to maintain operations, and many of these industries have furloughed personnel in the absence of operational demand.

Example Subsequent Events Disclosures

We expect preparers will include a subsequent events disclosure within the footnotes to the financial statements for periods ending on or before January 30, 2020, to provide meaningful information to users of financial statements about the impacts of COVID-19. That includes disclosures where no impacts from COVID-19 may currently be known or where no impact from COVID-19 may be expected. We envision disclosures that are similar to the examples provided below, as tailored for the client's specific circumstances to transparently disclose their material risks and uncertainties.

A generic example of subsequent events disclosures follows:

Subsequent Events

Describe the matter, for example:

> On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.
>
> The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity[1] for fiscal year 2020.

Describe the effects to, or subsequent actions of, the entity (as applicable). Care should be taken to evaluate and include supplemental company and industry-related disclosures from below:

- The Company's suppliers from [country] have decreased production due to factory closures or reduced operating hours in those facilities. While the Company considers this disruption to be temporary, continued disruption in the supply chain may [will] lead to a delayed receipt by the Company of necessary raw materials, component inventory [revise wording for company-specific circumstances], and negatively impact sales in fiscal year 2020 and the Company's overall liquidity.
- The Company is dependent on its workforce to deliver its products [services]. Developments such as social distancing and shelter-in-place directives have [will] impact the Company's ability to deploy its workforce effectively. While expected to be temporary, prolonged workforce disruptions may [will] negatively impact sales in fiscal year 2020 and the Company's overall liquidity.
- The adverse economic effects of the COVID-19 outbreak have materially [or are expected to materially] decrease[d] demand for the Company's products [services] based on the restrictions in place by

[1] Disclosures of liquidity constraints often stem from covenant violations or other factors that the auditor should also evaluate in connection with a going concern assessment and a potential emphasis of matter paragraph in our report, as discussed elsewhere in this Assurance Comments.

governments trying to curb the outbreak [and/or] changes in consumer behavior. This may [will] lead to the Company not achieving its sales goals in fiscal year 2020 and the Company's overall liquidity [adjust language for company circumstances].

- The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown, which has [is expected to] depress[ed] [impair] the Company's asset values, including [provide relevant asset groupings here, such as financial instruments including equity and debt investments, long-lived assets, intangible assets, etc.].
- The Company has significant interest/debt payments due in [June 2020], which if sales decline due to the impact of the COVID-19 outbreak on consumers, may [will] lead to the Company seeking debt forbearance [restructuring] and additional sources of debt and/or equity financing. [Consider disclosing any additional relevant liquidity considerations here.]
- The Company has [expects to] fail[ed] to meet certain covenant provisions in its debt arrangements [and/or its equity and/or other financial arrangements, such as leases]. This may [will] lead to the Company seeking debt forbearance [restructuring] and additional sources of debt and/or equity financing. [Consider disclosing any additional relevant liquidity considerations here and reference to going concern disclosures, if appropriate.]
- The Company's operations have decreased to curtail the spread of the COVID-19 outbreak in [U.S., globally, etc.]. Production levels have decreased X% as of x/xx/2020 [tailor for industry-related operational considerations]. While the Company considers this decrease in production to be temporary, if it continues, it may [will] materially affect sales levels for fiscal year 2020 and the Company's overall liquidity.
- The Company's operations have decreased to curtail the spread of the COVID-19 outbreak in [U.S., globally, etc.]. At this time, the Company has closed XX stores/ locations/offices [tailor to company-specific circumstances] to protect its employees and customers from the spread of this virus, consistent with governmental restrictions and guidance. The Company's online business/ship-from-warehouse remains active to serve our customers [alternatively, tailor to note it is not active]. While the Company considers these closures to be temporary, if they continue, this may [will] adversely affect sales expectations for fiscal year 2020 and the Company's overall liquidity.

Conclude the disclosure with language similar to:

- Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it [may/will] have a/an [material] adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2020.

The following are examples of generic subsequent events disclosures by industry. They should be integrated with the introductory paragraph in the generic disclosure above ("On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus….").

The disclosures will need to be adjusted for each entity's specific situation. These disclosure examples are current at March 25, 2020 and will require adjustment for more current information at the time of issuance of the financial statements.

Example type	Example disclosure
Asset Management/ Investment Funds	Hedge Fund with No Significant Level 3 fair value measures: The pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and volatility in financial markets across the world. Depending on the severity and length of the outbreak, this pandemic could present material uncertainty and risk with respect to the [Fund/Partnership], including its performance, the liquidity of its investments, collectability of amounts due from others, and on its overall financial condition. The rapid development and fluidity of this situation precludes management from making a reasonable estimate as to the ultimate adverse impact of the pandemic on the [Fund's/Partnership's] results of operations, financial condition and liquidity for fiscal year 2020. PE / VC Fund and Hedge Fund with Significant Level 3 fair value measures: The pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and volatility in financial markets across the world, including signals of an uptick in illiquid or inactive markets, which may cause a change in valuation methodology and/or technique as well as the observability of inputs to be used in valuation techniques. Depending on the severity and length of the outbreak, this pandemic could present material uncertainty and risk with respect to the [Fund/Partnership], including an adverse effect on its portfolio companies' operations and their financial condition, the ability of such portfolio companies to provide underlying financial information in a timely manner, expected declines in the valuation of its investments in the portfolio companies, collectability of amounts due from others, and its overall performance. The rapid development and fluidity of this situation precludes management from making an estimate as to the ultimate adverse impact of the pandemic on the value of the [Fund's/Partnership's] investments, liquidity, financial condition, and results of operations for fiscal year 2020.
Banks (with a focus on removal of capital reserve requirements)	The adverse economic effects of the coronavirus may lead to an increase in credit risk on the Bank's commercial and residential loan portfolios. Likewise, the Bank is also monitoring the fluctuations in the markets as it pertains to interest rates and fair value of our investments for other than temporary impairment. To curtail the spread of the virus, [X] branches have been temporarily closed and we are not currently offering the following services as of XX/XX/2020: [insert here]. While the Bank considers these disruptions to be temporary, if they continue, this may have a/an [material] adverse effect on the Bank's results of future operations, financial position, and liquidity in fiscal year 2020. Further, a decrease in results of future operations may place a strain on the Bank's capital reserve ratios.

Example type	Example disclosure
Construction	The Company is dependent on its workforce to deliver its services. Developments in response to COVID-19, such as social distancing and shelter-in-place directives, have [may] impact[ed] the Company's ability to deploy its workforce effectively. These same developments may affect the operations and timing of deliverables from the Company's subcontractors and suppliers, as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. Further, the Company's customers (project owners) may either delay or cancel existing or future projects based on these same developments. Further, unforeseen conditions may require contract modifications and changes in the Company's estimates to complete its existing contracts. While expected to be temporary, these disruptions may [will] negatively impact the Company's revenues, its results of operations, financial condition, and liquidity in 2020.
EBPs - Defined Benefit	The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Plan's investment portfolio has incurred a significant decline in fair value since [insert plan year end]. However, because the values of the Plan's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. The value of the Plan's investments has a direct impact on its funded status. As a result of such declines in market value and possible changes to the actuarial assumptions used in determining the present value of accumulated plan benefits, the Plan Sponsor may need to make greater cash contributions to fund the Plan. Based on the Plan's funded percentage, there may be certain benefit limitations imposed. However, the actual impact, if any, on future required contributions, Plan liquidity, and benefit limitations cannot be determined at this time.
EBPs - Defined Contribution	The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Plan's investment portfolio has incurred a significant decline in fair value since [insert plan year end]. Because the values of the Plan's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Plan's liquidity cannot be determined at this time.
EBP - Health and Welfare Plans	The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Plan's investment portfolio has incurred a significant decline in fair value since [insert plan year end]. Because the values of the Plan's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. As a result of such declines in market value and possible changes to the actuarial assumptions used in determining the present value of benefit obligations, the Plan Sponsor may need to make greater cash contributions to fund the Plan or modifications to plan benefits. However, the actual impact, if any, to future required contributions, benefit modifications, and Plan liquidity cannot be determined at this time.

Example type	Example disclosure
ESOPs	(non-leveraged): The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Plan's investment portfolio, which consist primarily of the Company's common stock, has incurred a significant decline in fair value since [insert plan year end]. However, because the values of the Plan's investments, including the Company's common stock, have and will fluctuate in response to changing market conditions and the valuation assumptions determined by the Company (such as future earnings and cash flows and valuation techniques), the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. Similarly, any future required contributions and benefit limitations cannot be determined at this time. (leveraged): The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. As a result, the Plan's investment portfolio, which consists primarily of the Company's common stock, has incurred a significant decline in fair value since [insert plan year end]. However, because the values of the Plan's investments, including the Company's common stock, have and will fluctuate in response to changing market conditions and the valuation assumptions determined by the Company (such as future earnings and cash flows and valuation techniques), the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. As a result of such declines, the impact, if any, to future loan payments, the Plan's liquidity, and the release of allocated shares of Company common stock to participants cannot be determined at this time.
Government	The Government/Organization's operations are heavily dependent on the ability to raise taxes [describe the types of taxes], assess fees [describe the type fees], and access the capital markets [tailor to Government entity]. Additionally, access to grants and contracts from federal, state and local governments may decrease or may not be available depending on appropriations [tailor to Government entity]. The outbreak may[will] have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has [is expected to] depress(ed) the tax bases and other areas in which the Government/Organization received revenue during fiscal year 20XX. As such, this may [will] hinder our ability for the Government/Organization to meets the needs of its constituents. It may [will] also lead to the Government/Organization to seek debt forbearance [restructuring] and additional sources of debt. [Consider disclosing any additional relevant liquidity considerations here.] As such, our financial condition and liquidity may (will) be negatively impacted for the fiscal year 20XX.

Example type	Example disclosure
Government Contractors	The Company faces various risks related to the global outbreak of coronavirus disease 2019 ("COVID-19"). The Company is dependent on its workforce to deliver its [products] services primarily to the U.S. Government. If significant portions of the Company's workforce are unable to work effectively, or if the U.S. Government and/or other customers' operations are curtailed due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic, the Company's operations will likely be impacted. The Company may be unable to perform fully on its contracts and costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable or adequately covered by insurance. At this time, the Company's management cannot predict the impact of the COVID-19 pandemic, but management continues to monitor the situation, to assess further possible implications to operations, the supply chain, and customers, and to take actions in an effort to mitigate adverse consequences. Further, the pandemic may [will] have a/an [material] adverse effect on the Company's results of operations, financial position, and liquidity in fiscal year 2020.

Healthcare	Long Term Care (Skilled Nursing Facilities, Assisted Living, Independent Living, Memory Care) As the recent outbreak of the coronavirus (COVID-19) continues to spread throughout areas in which we operate, [if applicable] federal, state, or local health departments have banned or limited admissions to our facilities as a precautionary measure to avoid the spread of COVID-19. [if applicable] Patients have postponed or refused necessary care in an attempt to avoid possible exposure to COVID-19, thereby reducing occupancy. [if applicable] Residents in our facilities have tested positive for COVID-19; accordingly we will incur significantly increased costs for caring for the patients/ residents in that facility(ies) and, in all likelihood, a reduced occupancy at that/those facility(ies) will occur. [if applicable] Further, COVID-19 has impacted our operations by causing staffing and supply shortages. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our patients (residents), employees, and vendors, all of which are uncertain and cannot be predicted. Given these uncertainties, we cannot reasonably estimate the related impact to our business, operating results, and financial condition, if any. (if applicable/alternative) While expected to be temporary, these disruptions may [will] negatively impact the Company's patient service revenue/ resident revenue, its results of operations, financial condition, and liquidity in 2020. Hospitals (Acute Care) As the recent outbreak of the coronavirus (COVID-19) continues to spread throughout areas in which we operate, [if applicable] our facilities have become impacted by the number of COVID-19 patients and accordingly we do not have sufficient excess capacity to treat patients for other diagnoses, including elective procedures. [if applicable] Our facilities involved in treating patients for COVID-19 have become impacted and are causing other patients to be diverted to other facilities or delaying treatment. [if applicable] As a result of supply chain interruptions caused by COVID-19, medical and pharmaceutical supplies sourced from China or other countries impacted by COVID-19 have been in short supply and accordingly we have incurred excessive costs in sourcing supplies and pharmaceuticals to effectively treat patients for COVID-19 and other diagnoses. [if applicable] The level of federal, state, or local assistance provided to our facilities to assist with the increased costs of treating patients with COVID-19 is uncertain. [if applicable] Further, COVID-19 has impacted our operations by causing staffing and supply shortages. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our patients, employees, and vendors, all of which are uncertain and cannot be predicted. Given these uncertainties, we cannot reasonably estimate the related impact to our business, operating results, and financial condition, if any [if applicable/alternative]. While expected to be temporary, these disruptions in supplies [or diversions of patients; or excessive impact of treating COVID-19 patients] may [will] negatively impact the Company's patient service revenue [resident revenue], its results of operations, financial condition, and liquidity in 2020. Physicians/ Dentistry/ Other Specialty As the recent outbreak of the coronavirus (COVID-19) continues to spread throughout areas in which we operate, [if applicable] federal, state, or local health departments have banned or limited patients to our practices as a precautionary measure to avoid the spread of COVID-19. [if applicable] Patients have postponed or refused necessary care in an attempt to avoid possible exposure to COVID-19, thereby reducing patient service revenue. [if applicable] As a result of reduced patient visits, our practice has closed XX locations, and decreased

Example type	Example disclosure
	consultation hours by [XX] hours per day /week, in order to reduce operating costs. [if applicable]. [if applicable] As a result of reduced patient visits, our practices have furloughed certain non-essential staff in order to reduce operating costs. [if applicable] Patients at our practices have tested positive for COVID-19. Accordingly, we will incur significantly increased costs for caring for the patients and, in all likelihood, a reduced patient flow at that/those locations will occur. [if applicable] Further, COVID-19 has impacted our operations by causing staffing and supply shortages. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our patients, employees, and vendors, all of which are uncertain and cannot be predicted. Given these uncertainties, we cannot reasonably estimate the related impact to our business, operating results, and financial condition, if any. (if applicable/alternative) While expected to be temporary, these disruptions may [will] negatively impact the Company's patient service revenue, its results of operations, financial condition, and liquidity in 2020.
Hospitality	Reservations and consumer demand for/at the Company's locations [expand if needed – ships, hotels, tours, etc.] have greatly decreased since the spread of the outbreak and new travel restrictions placed by governments to curtail the spread of the coronavirus. Developments such as social distancing and shelter-in-place directives have [will] impact[ed] the Company's ability to deploy its workforce effectively at its operating locations, as well as further decrease[d] consumer demand. While the Company considers these disruptions to be temporary, if they continue, this may [will] have a/an [material] adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2020.
Insurance (with a focus on business interruption insurers)	The Company's policy holders, largely businesses, have faced decreased levels of operations and earnings, as a result of the coronavirus in [US, globally, etc.]. Developments such as social distancing and shelter-in-place directives further impact the Company's customers and may lead to further insurance claims of business interruption during this time. While the Company considers these disruptions to be temporary, if they continue, this may have a/an [material] adverse effect on claims made, the Company's results of future operations, financial position, and liquidity in fiscal year 2020.

Example type	Example disclosure
Life Sciences	While the full impact of the pandemic continues to evolve, the financial markets have been subject to significant volatility that adversely impacts the Company's ability to enter into, modify, and negotiate favorable terms and conditions relative to equity and debt financing initiatives. The uncertain financial markets, disruptions in supply chains, mobility restraints, and changing priorities as well as volatile asset values also affect the Company's ability to enter into collaborations, joint ventures, and license and royalty agreements. The outbreak and government measures taken in response to the pandemic have also had a significant impact, both direct and indirect, on businesses and commerce, as worker shortages have occurred; supply chains have been disrupted; facilities and production have been suspended; and demand for certain goods and services, such as medical services and supplies, have spiked, while demand for other goods and services, such as travel, have fallen. The future progression of the outbreak and its effects on our business and operations are uncertain. We may face difficulties recruiting or retaining patients in our ongoing and planned clinical trials if patients are affected by the virus or are fearful of traveling to our clinical trial sites because of the outbreak. We and our third-party contract manufacturers, contract research organizations, and clinical sites may also face disruptions in procuring items that are essential to our research and development activities, including, for example, medical and laboratory supplies used in our clinical trials or preclinical studies, in each case, that are sourced from abroad or for which there are shortages because of ongoing efforts to address the outbreak. While expected to be temporary, these disruptions may [will] negatively impact the Company's sales, its results of operations, financial condition, and liquidity in 2020.
Manufacturing	The Company's suppliers from [country] have [may] decrease[d] production levels based on factory closures and reduced operating hours in those facilities. Likewise, the Company is dependent on its workforce to deliver its products [services]. Developments such as social distancing and shelter-in-place directives have [will] impact[ed] the Company's ability to deploy its workforce effectively. [If applicable, consider discussing any new initiatives, such as changing production/ retooling to meet product needs to fight the COVID-19 outbreak]. These factors may [will] have a/an [material] adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2020.
Nonprofits	The Organization's operations are heavily dependent on private and public donations from individuals, foundations, and corporations [tailor to NFP, use other material revenue sources for which the NFPs is dependent]. Additionally, access to grants and contracts from federal, state, and local governments may decrease or may not be available depending on appropriations [tailor to NFP]. As of the date of this report, our investment values have experienced a temporary decline of _______. The outbreak may[will] have a continued material adverse impact on economic and market conditions, triggering a period of global [may change to national, regional, or other type] economic slowdown. This situation has [is expected to] depress(ed) donations [name appropriate revenue stream] during fiscal year 20XX. As such, this may [will] hinder our ability to advance our mission. It may [will] also lead the Organization to seek debt forbearance [restructuring] and additional sources of debt and/or equity financing. [Consider disclosing any additional relevant liquidity considerations here.] As such, our financial condition and liquidity may (will) be negatively impacted for the fiscal year 20XX.

Example type	Example disclosure
Oil and Gas	In addition, in March 2020, members of OPEC failed to agree on oil production levels, which is expected to result in an increased supply of oil and has led to a substantial decline in oil prices and an increasingly volatile market. The Company has certain commodity derivative instruments in place [list the % of 2020 estimated production at average prices through xx year] to mitigate the effects of such price declines. However, if the depressed pricing environment continues for an extended period, it may [is expected to] lead to i) a reduction in the borrowing base under our credit facility, which could negatively impact our liquidity, ii) a reduction in reserves, including the possible removal of proved undeveloped reserves, and iii) the potential impairment of proved and unproved oil & gas properties. Consumer demand for our products may also be negatively impacted. Management is actively monitoring its financial condition, liquidity, operations, suppliers, industry, and workforce. Although the Company cannot estimate the length or gravity of the impacts of these events at this time, if the pandemic and/or decline in oil prices continue, they [may/will] have a/an [material] adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2020.
Professional Services	The Company is dependent on its workforce to deliver its services. Developments such as social distancing and shelter-in-place directives have [will] impact[ed] the Company's ability to deploy its workforce effectively. Further, these same developments are affecting the operations and timing of deliverables from the Company's customers, as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. The effectiveness of remote work environments may also be constrained due to unprecedented levels of internet usage stemming from the COVID-19 outbreak. While expected to be temporary, these disruptions may [will] negatively impact the Company's sales, its results of operations, financial condition, and liquidity in 2020.
Real Estate	The COVID-19 pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries, including the [hotel, retail] sectors in which our tenants operate. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. As such, the Company notes that [X or several of its] tenants have decreased or closed operations to protect its employees and customers from the spread of the virus, consistent with governmental restrictions and guidance. These disruptions may impact the collectability of rent from our affected tenants, as well as the recoverability of our real estate assets. While the Company considers these disruptions to be temporary, if they continue, the COVID-19 pandemic may adversely affect our revenues, results of operations, financial condition, and liquidity for fiscal year 2020.

Example type	Example disclosure
Restaurants	The Company's operating levels have decreased to curtail the spread of the coronavirus in [US, globally, etc.]. At this time, the Company has closed XX stores/ locations [or decreased store operations such as dine-in options] to protect its employees and customers from the spread of this virus, consistent with governmental restrictions and guidance. Similarly, X of our franchised stores have also closed or reduced their operations. The Company's [online business/ to-go operations] remain active to serve our customers. Historically, X% of our sales in fiscal year 2019 were based on in-store sales. Additionally, the Company's suppliers are experiencing disruption due to the pandemic. While the Company considers these disruptions to be temporary, if they continue, this may adversely affect the sales levels, results of operations, financial condition, and liquidity for fiscal year 2020.
Retail & Consumer Products	In response to the pandemic, the Company has reduced its operating activities to curtail the spread of the coronavirus in [U.S., globally, etc.] At this time, the Company has temporarily closed XX stores/ locations [or decreased store operations to pick-up only] to protect its employees and customers from the spread of this virus, consistent with governmental restrictions and guidance. The Company's [online business/ship-from-warehouse/ pick-up only operations] remain active to serve our customers. Historically, X% of our sales in fiscal year 2019 were based on in-store sales. These same developments may affect the operations of the Company's suppliers and distributors/resellers, as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any prolonged closing of the Company's retail stores and/or its distribution center may adversely affect our sales levels, results of operations, financial condition, and liquidity for fiscal year 2020.
Technology	The Company is dependent on its workforce and/or distributors/resellers [as /if applicable] to sell and deliver its products [and services]. Developments such as social distancing and shelter-in-place directives have [will] impact[ed] the Company's ability to deploy its workforce effectively. These same developments may affect the operations of the Company's suppliers and distributors/resellers, as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. The effectiveness of remote work environments and hosted services may also be constrained due to unprecedented levels of internet usage stemming from the COVID-19 outbreak. The Company's research and development activities are performed in certain international locations [change as applicable] that are also impacted by the COVID-19 outbreak as well as travel restrictions [if applicable]. While expected to be temporary, these disruptions may [will] negatively impact the Company's sales, its results of operations, financial condition, and liquidity in 2020.

Corporate Governance and Shareholder Considerations and Communications

As the COVID-19 pandemic continues to spread across the globe, boards and audit committees are encouraged to continue working closely with their management teams, auditors and advisors to understand the facts, evaluate risks and form meaningful responses. Areas requiring focus are wide-ranging and should consider the impacts of this crisis on employees, customers, operations, vendors, lenders and other stakeholders. Shareholders have heightened interest in how companies are handling significant challenges and risks being posed by COVID-19 and how executives are contingency-planning. Timely and frequent communications regarding operational, business and financial reporting and disclosure have taken on increased importance.

Oversight

In light of the guidance contained in this publication, we encourage audit committees to be highly proactive in their oversight of the financial reporting and disclosure process, which includes consideration of the adequacy of the internal controls over financial reporting. Each company's facts and circumstances relative to COVID-19 impacts will be unique. Consideration of required judgments and estimates about financial impacts coupled with physical challenges such as remote working environments and data protection and integrity of information are top of mind. Audit Committees are encouraged to review the materials included previously. Below is a list of suggested questions to consider as you engage with management and the auditors:

- Are disclosures included in the financial statements reflective of emerging risk factors such as unanticipated disruptions in supply chains, loss of significant customers, disruptions to production and productivity of employees, lack of access to capital, increase in exposure to cyber-crimes, etc.?
- Are disclosures included in the financial statements reflective of subsequent events related to COVID-19 that users of financial statements will find meaningful? Are these reflective of industry-specific considerations?
- Is our classification of our financial obligations adequate when we consider related debt covenant requirements?
- Are the impacts of COVID-19 material to management's assessment of our ability to continue as a going concern?
- Are our controls over financial reporting adequate to respond to changes or impacts caused by COVID-19 on the financial statement closing and reporting process? (This includes controls over changes in work methods and access to information and audit evidence.)
- Will our filing deadlines be impacted by increased audit procedures, access to information or other challenges?
- Are we meeting often enough with management and the auditors to address any challenges as they arise?
- Are we keeping the board apprised of significant matters with respect to risk and disclosure?

Anticipated Shareholder Questions

Boards, particularly those that are in the midst of proxy season and hosting annual shareholder meetings, can and should expect shareholder questions around the following:

- Plans to ensure the wellbeing of their professionals and customers

- Crisis management roles and responsibilities between the board and management team
- Risk assessment, anticipated impact and response to disruptions in all phases of product procurement, development and delivery
- Financial management, liquidity and sustainability impacts
- Adequacy of financial reporting and disclosures to convey risk
- Increased cybersecurity and data privacy considerations as more individuals telework
- Environmental, social and governance (ESG) opportunities and responsibilities during the crisis
- Considerations to modify executive pay plans as short-term responsive measures
- Ability to provide timely public financial information
- Industry-specific risk mitigation plans (e.g., contracts, supply chain, technology)

Other matters for board consideration include communicating to employees and those charged with governance expected adherence to insider trading policies and determining whether restrictions to such activities may be warranted. This includes monitoring the appropriateness of trading activities of board members and employees.

Boards—working alongside management, public relations, human resources and counsel—need to be thoughtful and proactive in issuing timely, robust and transparent communications to all of their stakeholders. This is particularly important as new developments arise and local, state, federal and international officials issue new guidance and mandates.

Securing the confidence of stakeholders, particularly during times of crisis, is paramount.

SEC Staff Guidance on Annual Meetings and Shareholder Access

Shareholders will also be awaiting decisions on whether or not a company is abiding by social distancing and its impacts on annual meetings, whether virtual or in-person.

We previously communicated, in our SEC Flash Report **2020-05**, that the SEC staff provided **guidance** to issuers regarding the annual meetings of shareholders in light of COVID-19. State law typically requires issuers to hold annual meetings of security holders. Due to travel and other restrictions imposed due to the outbreak of COVID-19, many registrants are contemplating changing the date of annual meetings, time and/or location, or plan to conduct virtual meetings. The SEC staff guidance outlines their position on the following matters:

Changes to the annual meeting of shareholders

Federal proxy rules govern the delivery of proxy materials, including definitive proxy statements and proxy cards. Due to the global pandemic of COVID-19, issuers may change the date, time, or location of their annual shareholders meetings. The SEC staff has indicated that issuers that have already mailed and filed their definitive proxy materials are permitted to notify shareholders of a change in the date, time, or location of the annual meeting without a requirement to mail additional soliciting materials or amend proxy materials if the issuer:

- Issues a press release that announces the changes;
- Files the announcement as definitive additional soliciting material on EDGAR; and
- Takes all reasonable steps necessary to inform others in the proxy process, including proxy service providers and applicable national securities exchanges.

These notifications should occur sufficiently in advance of the annual shareholders meeting to provide advance notice to the market. For issuers that have not yet mailed or filed their definitive proxy materials, disclosure of the possibility that the date, time, or location of the meeting may change is appropriate.

The conduct of virtual shareholder meetings and proper notification to shareholders

For issuers that are considering whether to conduct virtual shareholder meetings, rather than in person meetings, state laws govern the ability to conduct the annual shareholders meeting virtually. The SEC staff has stated that issuers should ensure that shareholders are provided with robust disclosures for shareholder voting, regardless of the method expected to be used to conduct the shareholder meeting. Issuers are also expected to provide proper notification to shareholders and others included in the proxy process, that is timely and that includes clear directions. Logistical details of a virtual meeting, including the voting process, should be included in the definitive proxy materials. For proxy materials already provided to shareholders, issuers would not be required to mail additional soliciting materials if they follow the steps above for notification of a change in the date, time, or location of the meeting.

Presentation of shareholder proposals and the conditions for excluding a proposal from the annual meeting

For shareholder proposals, shareholders or their representatives are required under Exchange Act Rule 14a-8(h) to present their proposals at the annual meeting. The SEC staff encourages issuers to provide shareholder proponents the means, whether by phone or virtually, to present their proposals. However, if a shareholder proponent is unable to attend the annual shareholder meeting through the methods provided, the staff deems this a good cause under the Exchange Act Rule to exclude the proposal from any meetings held in the following two calendar years.

Additional Resources for Boards to Consider

BDO Thought Leadership and Webinar Events
BDO Preparing for the Business Impacts of COVID-19
BDO International COVID-19 Resources
2020 Shareholder Meetings (Part 1) - Archive
2020 Shareholder Meetings (Part 2) - Archive
COVID-19: Managing Your Business During a Crisis - Archive
How Do Nonprofits Adapts to Crisis? - March 26th 1:30PM ET
COVID-19: Mitigating Risk During Disruption – April 1st 1:00PM ET
COVID-19: Preparing for the Economic Impacts of a Pandemic – *To be scheduled*

2020 Quarterly Technical Update Series - Q1: April 8, 9 or 10…

Further Resources

- SEC Flash Alert 2020-03 - SEC Provides Conditional Relief and Assistance
- SEC Flash Alert 2020-05 - SEC Staff Issues Guidance on Annual Meetings
- International Financial Reporting Bulletin 2020/02 - Potential Effects of the Coronavirus Outbreak on 31 December 2019 Year-End Financials
- International Financial Reporting Bulletin 2020/03 - Potential Effects of the Coronavirus Outbreak on 2020 Reporting Periods and Onward
- FASB Statement on Prudential Regulator Guidance Concerning Troubled Debt Restructurings
- AICPA Coronavirus (COVID-19) Resource Center
- IRS Coronavirus Tax Relief
- National Association of Corporate Directors (NACD) COVID-19 Resource Center

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