

SEC Staff Provides Supplemental COVID-19 Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources

Details

On June 23, 2020, the SEC's Division of Corporation Finance (Corp Fin) issued [Disclosure Guidance Topic No. 9A](#) to supplement previously issued [Disclosure Guidance Topic No. 9](#). The supplemental guidance provides disclosure considerations regarding the effects and risks of COVID-19 on a registrant's operations and financial condition, including liquidity and capital resources within management's discussion and analysis ("MD&A"). Corp Fin continues to encourage companies to provide disclosures that allow investors to evaluate the current and expected impact of COVID-19 through the eyes of management and to proactively update disclosures as facts and circumstances change.

Many registrants have made operational adjustments in response to the adverse effects of COVID-19 that may be considered material to an investor. These adjustments have often focused on preserving liquidity and complying with new health and safety guidelines. Corp Fin expects registrants to provide robust and transparent disclosure regarding these adjustments within MD&A to the extent they are material. The supplemental guidance provides questions for registrants to consider as they analyze their specific facts and circumstances to determine the appropriate level of disclosure. Questions provided by Corp Fin are generally focused on the following areas:

- Access to revolving lines of credit or capital raised in the public markets;
- Ability to timely service debt or other obligations;
- Ability to maintain compliance with covenants;
- Modifications to contract terms;
- Changes to capital expenditure activities;
- Disposals of material assets or business lines;
- Altered terms with customers, concessions;
- Supplier finance programs;
- Known trends and uncertainties; and
- A registrant's ability to continue as a going concern.

Registrants have also received federal assistance in the form of loans and tax relief through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Corp Fin expects registrants to provide disclosure regarding the short and long-term impact of that assistance on their financial condition, results of operations, liquidity, and capital resources, as well as the related disclosures and critical accounting estimates and assumptions within MD&A.

Internal Control over Financial Reporting (ICFR) Considerations

Companies will need to consider how liquidity and other operational activities affected by COVID-19 may be affecting ICFR.

- Assess impact on controls related to debt arrangement, debt covenant compliance obligations, and related accounting as a result of securing additional financing through debt or equity raises
- Changes to customer or supplier contract payment terms may impact the liquidity – Controls associated with accruals and or revenue recognition
- Controls associated with discontinued operations due to disposal of material business lines
- Controls related to impact on Goodwill and other Intangible assets for assessing triggering event for impairment
- Controls related to going concern analysis and related impact on disclosures
- Increased risk of fraud due to remote working arrangements or cybersecurity could potentially impact the liquidity due to lawsuits or other fines

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