



The Importance of Financial Disclosure During COVID-19

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The Canadian Securities Administrators (CSA) have reminded Canadian public companies of the importance of disclosing high quality financial information to investors, particularly in the face of the COVID-19 pandemic.

In response to the International Organization of Securities Commissions' (IOSCO) May 29, 2020 [IOSCO Statement on Importance of Disclosure about COVID-19](#) (the IOSCO Statement), the CSA published a statement of support, reminding issuers of the importance of disclosing high quality financial information to investors. The CSA also refers Canadian reporting issuers to its May 6, 2020 presentation (the CSA Presentation) – [COVID-19 Continuous Disclosure Obligations and Considerations for Issuers](#) – which outlines a number of important considerations for issuers' financial disclosure, including management's discussion and analysis (MD&A) and material change reports.

The IOSCO Statement acknowledges the significant impact COVID-19 has had on the information found in financial statements of public companies worldwide and notes that issuers will need to make significant judgments and estimates that will be subject to greater uncertainty than usual. Issuers are reminded of the importance of good information in making well-reasoned judgments and estimates, taking into account the impact of the COVID-19 pandemic and any governmental relief or support of which the issuer may avail itself. As we discussed in our earlier post – [Public Company Disclosure and the Canadian Emergency Wage Subsidy](#) – Canadian issuers who have applied for and/or received the Canada Emergency Wage Subsidy (CEWS) should consider how CEWS will be incorporated in their public disclosure, particularly the disclosure included in their MD&A.

Issuers should also try to tailor any disclosure about COVID-19 to their particular circumstance. As we have [noted in the past](#), boilerplate or one-size-fits all disclosure will generally be insufficient when discussing the impact that COVID-19 has had or may potentially have on an issuer's business. Importantly, despite the wide-ranging impacts of COVID-19, Canadian baseline continuous disclosure obligations and form requirements remain the same. As such, the effects of COVID-19 will impact certain existing disclosure requirements.

Management's Discussion & Analysis

Issuers should strive to explain the following business impacts in their MD&As:

- How COVID-19 has or is expected to impact the **financial performance, financial position** and **cash flows** of the issuer. Consideration should be given to how COVID-19 has impacted

- dividend policies, capital costs, the ability to collect accounts receivable and the ability to satisfy accounts payable and other contractual liabilities, including credit facilities and lease liabilities, among other things.
- How the issuer's **strategy** has been modified to address the effects of COVID-19. Previously disclosed forward-looking information should be updated or withdrawn as required to reflect any change or modification to the issuer's strategy. Issuers should consider whether there is a reasonable basis for previously disclosed forward-looking information and how COVID-19 has impacted the issuer's overall outlook for its operations and liquidity position, both in the short and long-term.
 - Any measures taken to address and mitigate the impacts of the pandemic on the issuer.

The CSA Presentation reminds issuers that an MD&A is intended to be a discussion of the issuers financial results through the eyes of management and highlights four key areas of focus for issuers addressing COVID-19 in their MD&As:

Financial Information

The CSA acknowledge that issuers are preparing financial statements based on potentially imperfect information, in an uncertain and ever-changing environment. Issuers are expected to make well-reasoned judgements based on the best information available. As new information becomes available, consideration should be given to whether any judgements and estimates, and/or past disclosure need to be updated.

Issuers are reminded of the guidance found in Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures*, particularly when describing losses or expenses as non-recurring, infrequent or unusual if it is reasonably likely that a similar loss will occur within a two-year period. In addition, the CSA will consider it misleading to describe an adjustment as COVID-19 related if management does not explain how the adjustment amount was specifically associated with COVID-19.

Material Change Reports

Finally, the CSA Presentation provides guidance as to when a material change report might be triggered as a result of COVID-19. While industry impacts that have had an equal effect across the industry may not constitute a material change, issuer specific impacts may require the filing of a material change report. Examples of potentially material information that might result from COVID-19, as listed in the CSA Presentation, include:

- Significant disruptions in an issuer's workforce or operations.
- Critical supply chain delays or disruptions.
- Increased costs of goods or services.

As always, financial disclosure is an important tool for issuers to explain the status of their business to investors and issuers should continue to be diligent in preparing such disclosure.

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