

## FRC Updates Corporate Governance and Reporting Guidance to include Interim Reports

May 14, 2020

On 12 May 2020, the Financial Reporting Council (FRC) published an updated version of its [guidance for companies on corporate governance and reporting](#) during the COVID-19 pandemic to include a new section on interim reports.

The FRC's guidance in the new section includes the following:

- Directors will need to exercise judgment about the nature and extent of the procedures that they apply to assess the going concern assumption at the half-yearly date. This might include disclosures of:
  - any material uncertainties to going concern;
  - assumptions made about the future path of COVID-19 and the public health responses;
  - the projected impact on business activities;
  - use of government support measures; and
  - access to bank and other financing.
- Issues that might trigger a need to re-examine the going concern assumption and going concern and liquidity risk disclosures include:
  - a significant adverse variation in operating cash flows between prior budgets and forecasts and the outturn in the first half of the year;
  - a significant reduction in projected revenues for the second half of the year based on plausible scenarios for the COVID-19 pandemic and public health responses, and taking into account government support measures;
  - a failure to obtain renewal or extension of committed financing facilities; and
  - a failure to sell capital assets for their expected amounts or within previously forecast time frames.
- If going concern has become a significant issue since the previous annual financial statements, directors should undertake procedures similar to those that they would have carried out for annual financial statements to ensure that all relevant issues have been identified and considered.
- It is a matter for a company to decide whether to engage their auditors to perform an interim review engagement. However, feedback from investors indicates that such a review provides valuable assurance, and this may be particularly so in the current environment

The previous FRC guidance, published on 26 March 2020, highlights some key areas of focus for boards in maintaining strong corporate governance and provides high-level guidance on some of the most pervasive issues when preparing their annual report and other corporate reporting.

Among other things, the guidance encouraged boards to:

- develop and implement mitigating actions and processes to ensure the continued operation of an effective control environment: in particular, addressing any key reporting and other controls on which they have placed reliance historically, but which may not

prove effective in the current environment;

- consider how to secure reliable and relevant information, on a continuing basis, to manage their future operations and those of their workforce and suppliers, including the flow of financial information from significant subsidiary, joint venture and associate group entities; and
- pay attention to capital maintenance, ensuring that sufficient reserves are available when the dividend is made, not just proposed; and sufficient resources remain to continue to meet the company's needs. The assessment of whether a dividend is appropriate should include consideration of current and likely operational and capital needs, contingency planning and the directors' legal duties, both in statute and common law.

The guidance also addresses the current difficulties in making forward-looking judgements in financial statements and aims to help boards to focus on areas of reporting of most interest to investors, and to encourage them to provide clarity on the use of key forward-looking judgements. The guidance covers:

- The need for narrative reporting to provide specific forward-looking information to the entity, which provides insights into the board's assessment of business viability and the methods and assumptions underlying that assessment
- Going concern and any associated material uncertainties, the basis of any significant judgements and the matters to consider when confirming the preparation of the financial statements on a going concern basis
- The increased importance of providing information on significant judgements applied in the preparation of the financial statements, sources of estimation uncertainty and other assumptions made; and
- Judgement required in determining the appropriate reporting response to events after the reporting date and the extent to which qualitative or quantitative disclosures may be appropriate

The FRC's Financial Reporting Lab also published an [infographic summarising key areas in which investors would like to see disclosures](#), including information on the financial resources available to the company (including cash and access to additional finance), what the company is doing to manage expenditure in the short term and other actions it is taking to ensure its viability and protect key assets and value drivers.

This content is provided for general informational purposes only, and your access or use of the content does not create an attorney-client relationship between you or your organization and Cooley LLP, Cooley (UK) LLP, or any other affiliated practice or entity (collectively referred to as "Cooley"). By accessing this content, you agree that the information provided does not constitute legal or other professional advice. This content is not a substitute for obtaining legal advice from a qualified attorney licensed in your jurisdiction and you should not act or refrain from acting based on this content. This content may be changed without notice. It is not guaranteed to be complete, correct or up to date, and it may not reflect the most current legal developments. Prior results do not guarantee a similar outcome. Do not send any confidential information to Cooley, as we do not have any duty to keep any information you provide to us confidential. This content may be considered **Attorney Advertising** and is subject to our [legal notices](#).

---

## Key Contacts

Claire Keast-Butler London	ckeastbutler@cooley.com +44 20 7556 4211
-------------------------------	---

---

This information is a general description of the law; it is not intended to provide specific legal advice nor is it intended to create an attorney-client relationship with Cooley LLP. Before taking any action on this information you should seek professional counsel.

Copyright © 2023 Cooley LLP, 3175 Hanover Street, Palo Alto, CA 94304; Cooley (UK) LLP, 22 Bishopsgate, London, UK EC2N 4BQ. Permission is granted to make and redistribute, without charge, copies of this entire document provided that such copies are complete and unaltered and identify Cooley LLP as the author. All other rights reserved.