

First Notes



SEBI's advisory on disclosure of material impact of COVID-19 by listed companies

5 June 2020

First Notes on

Financial reporting
Corporate law updates
Regulatory and other information

Disclosures

Sector

All
Banking and insurance
Information, communication, entertainment
Consumer and industrial markets
Infrastructure and government

Relevant to

All
Audit committee
CFO
Others

Transition

Immediately
Within the next three months
Post three months but within six months
Post six months
Forthcoming requirement

Background

The Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) requires listed companies to disclose material events which have a bearing on their performance or operations under various provisions. Those are as follows:

- **Equity listed companies:** Regulation 30(3) of the Listing Regulations and SEBI circular dated 9 September 2015 require an equity listed company to make disclosure of events specified in Para B of Part A of Schedule III of the Listing Regulations based on application of prescribed guidelines relating to materiality to the stock exchange(s). Those events, *inter alia*, include disruption of operations of any one or more units or division of a listed company due to natural calamity (earthquake, flood, fire, etc.), force majeure or events such as strikes, lockouts, etc.
- **Debt listed companies:** Regulation 51(1) of the Listing Regulations requires companies with listed debt securities to promptly inform the stock exchange(s) of all information that has a bearing on the performance/operation of the listed company, price sensitive information or any action that would affect payment of interest/dividend of non-convertible preference shares or redemption of non-convertible debt securities or redeemable preference shares.

Further, Regulation 51(2) read with clause 16 of Part B of Schedule III of the Listing Regulations requires a listed company to promptly inform the stock exchange(s) of any other information with a bearing on the operation/performance of the listed company as well as price sensitive information.



In the wake of coronavirus (COVID-19), SEBI has observed that many of the listed companies are providing disclosures primarily relating to shutdown of operations owing to the pandemic and resultant lockdowns while some have provided information relating to actions taken towards sanitation, safety, etc. However, a very small number of companies have disclosed the financial impact of the pandemic.

New development

On 20 May 2020, SEBI issued an advisory and encouraged listed companies to evaluate the impact of the COVID-19 pandemic on their business, performance and financial results, both qualitatively and quantitatively, to the extent possible and disseminate the same. This is in line with the international practices.

As per SEBI, disruptions caused by COVID-19 may lead to distortions in market due to gaps in information available about the operations of the listed company. Therefore, it is imperative that all information available about the impact of the pandemic on the company and its operations should be communicated in a timely and cogent manner to its investors and stakeholders.

This issue of First Notes aims to provide an overview of the SEBI advisory.

Information to be disclosed – an illustrative list



The circular provides an illustrative list of information that listed companies may consider while disclosing the impact of COVID-19 subject to the application of materiality. Those are as follows:

- Impact on COVID-19 pandemic on the business
- Ability to maintain operations including the factories/units/office spaces functioning and closed down
- Schedule, if any, for restarting the operations
- Steps taken to ensure smooth functioning of operations
- Estimation of the future impact of COVID-19 on its operations
- Details of impact of COVID-19 on a listed company:
 - Capital and financial resources
 - Profitability
 - Liquidity position
 - Ability to service debt and other financing arrangements
 - Assets
 - Internal financial reporting and control
 - Supply chain
 - Demand for its products/services
- Existing contracts/agreements where non-fulfilment of the obligations by any party will have significant impact on a listed company's business
- Other relevant material updates about a listed company's business.

No selective disclosures



SEBI requires listed companies not to resort to selective disclosures while disclosing material information relating to the impact of COVID-19 and ensure compliance with the requirements of Regulation 4(2)(e) of the Listing Regulations.

Regulation 4(2)(e) of the Listing Regulations requires a listed company to ensure timely and accurate disclosure on all material matters including its financial situation, performance, ownership, and governance in the following manner:

- Information should be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure
- Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users
- Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.

Disclosure in financial statements



Listed companies may include the impact of the COVID-19 on their financial statements, to the extent possible.

Update information regularly



Companies need to regularly update the information provided regarding the impact of COVID-19 as and when there are material developments.



Effective date: The provisions of the circular are effective from 20 May 2020.

Our comments

SEBI's advisory reiterates the need for providing adequate and timely information to the stakeholders about the impact of the pandemic on a listed company's operations and performance.

Many listed companies have provided certain COVID-19 related disclosures regarding the measures taken on health and safety of employees, measures taken to reduce costs, liquidity risks, etc. However, SEBI observed that the disclosures along with the 31 March 2020 year-end financial results are not detailed enough to provide adequate information to the stakeholders regarding the business implications of COVID-19.

Given the current economic situation, it is clear that outlook of the companies is likely to be impacted with respect to capital and financial resources, profitability, liquidity position, ability to service debt and other financing arrangements, assets, internal financial reporting and control, supply chain and demand for its products/services. However, the extent of impact cannot be predicted with great accuracy as various factors are involved that are beyond a company's control and knowledge and impact would vary sector to sector. Therefore, companies would need to build scenarios for short-term, medium-term and long-term business plan, their expectations and explain their judgements and estimates to their stakeholders. Further, they should continuously update the scenarios as new information or evidence becomes available and communicate any material changes to the previously reported matters, including changes in their overall expectations or outlook. They should explain how the company is responding to evolving events and uncertainties.

With regard the financial reporting implications, it is important to note that Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements*, requires financial statements to disclose all 'material' items, i.e. the items if they could, individually or collectively, influence the economic decisions that users make on the basis of financial statements. Therefore, companies would need to determine whether the financial reporting impacts of COVID-19 such as those relating to impairment loss, loss due to write-down of inventory, restructuring of business activities, etc. are material in size and nature or combination of both. If these items are identified to be material, then companies should disclose their nature and amount separately. This information may be given on the face of the statement of profit and loss or in the notes. Additionally, more extensive disclosures about company's policies and processes for managing its credit or liquidity risk exposures may become necessary.

Internationally, the European Securities and Markets Authority (ESMA) has recently issued a public statement on the impact of the COVID-19 pandemic on the half-yearly financial results of listed issuers. In the statement, it highlighted the importance of providing information to the investors on the identification of the principal risks and uncertainties to which listed issuers are exposed. It encouraged audit committees to enhance their oversight role which is key to contribute to high-quality financial results.

The U.S. Securities and Exchange Commission (SEC) also encouraged issuers to provide disclosures that convey material information about the impact of COVID-19 to investors and market participants. Companies should provide disclosures that allow investors to evaluate the current and expected impact of COVID-19 through the eyes of management, and that companies proactively revise and update disclosures as facts and circumstances change. As per SEC, assessment of the evolving effects of COVID-19 and related risks will be a facts and circumstances analysis specific to a company's situation.

It also reminds companies to refrain from trading prior to dissemination of material non-public information. For instance, if a company becomes aware of a material risk related to COVID-19, then its directors and officers, and other corporate insiders who are aware of these matters should refrain from trading in the company's securities until such information is disclosed to the public.

As far as listed companies in India are concerned, SEBI also prohibits an insider from trading in securities when in possession of Unpublished Price Sensitive information (UPSI).

The bottom line

Listed companies in India should aim to provide adequate disclosures regarding the material impact of COVID-19 on their performance and business operations as it would enable investors to assess the impact of the pandemic on the financial results of the listed company and make appropriate decisions.



KPMG in India

Ahmedabad

Commerce House V, 9th Floor,
902, Near Vodafone House,
Corporate Road,
Prahlad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200

Bengaluru

Embassy Golf Links Business
Park,
Pebble Beach, 'B' Block,
1st & 2nd Floor,
Off Intermediate Ring Road,
Bengaluru – 560071
Tel: +91 80 6833 5000

Chandigarh

SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh – 160 009
Tel: +91 172 664 4000

Chennai

KRM Towers, Ground Floor,
1, 2 & 3 Floor, Harrington Road
Chetpet, Chennai – 600 031
Tel: +91 44 3914 5000

Gurugram

Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurugram, Haryana – 122 002
Tel: +91 124 307 4000

Hyderabad

Salarpuria Knowledge City, 6th
Floor, Unit 3, Phase III, Sy No.
83/1, Plot No 2, Serilingampally
Mandal,
Ranga Reddy District,
Hyderabad – 500 081
Tel: +91 40 6111 6000

Jaipur

Regus Radiant Centre Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road
Jaipur – 302 018.
Tel: +91 141 - 7103224

Kochi

Syama Business Centre
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682 019
Tel: +91 484 302 5600

Kolkata

Unit No. 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091
Tel: +91 33 4403 4000

Mumbai

1st Floor, Lodha Excelus,
Apollo Mills
N. M. Joshi Marg,
Mahalaxmi, Mumbai – 400 011
Tel: +91 22 3989 6000

Noida

Unit No. 501, 5th Floor,
Advant Navis Business Park
Tower-A, Plot# 7, Sector 142,
Expressway Noida,
Gautam Budh Nagar,
Noida – 201 305
Tel: +91 0120 386 8000

Pune

9th floor, Business Plaza,
Westin Hotel Campus, 36/3-B,
Koregaon Park Annex, Mundhwa
Road, Ghorpadi, Pune – 411 001
Tel: +91 20 6747 7000

Vadodara

Ocean Building, 303, 3rd Floor,
Beside Center Square Mall,
Opp. Vadodara Central Mall,
Dr. Vikram Sarabhai Marg,
Vadodara – 390 023
Tel: +91 265 619 4200

Vijayawada

Door No. 54-15-18E, Sai Odyssey,
Gurunanak Nagar Road, NH 5,
Opp. Executive Club, Vijayawada,
Krishna District ,
Andhra Pradesh - 520008
Contact: 0866-6691000

KPMG in India's IFRS institute



Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

Missed an issue of Accounting and Auditing Update or First Notes



Issue no. 46 – May 2020

The topics covered in this issue are:

- Accounting under Ind AS in the COVID-19 environment
- Accounting impacts on modification of interest rate benchmarks
- Updates relating to US GAAP
- Regulatory updates



AGMs through VC or OAVM facility and other regulatory relaxations

28 May 2020

Currently, Section 96 of the Companies Act, 2013 (2013 Act) requires every company (other than a one-person company) to hold an Annual General Meeting (AGM) within a period of six months from the end of Financial Year (FY) and not later than 15 months from the date of last AGM. On the other hand, Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulation, 2015 requires top 100 listed companies to hold their AGMs within a period of five months from the date of closing of the FY.

In view of COVID-19 pandemic recently, the Ministry of Corporate Affairs (MCA) and SEBI have provided various relaxations and clarifications for conducting AGM and Extraordinary General Meeting (EGM). This issue of First Notes aims to provide an overview of the recent relaxations provided by MCA and SEBI.



Voices on Reporting

KPMG in India is pleased to present Voices on Reporting (VOR) – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 24 April 2020, KPMG in India released its VOR – annual update publication for the year ended 31 March 2020. The publication provides a summary of key updates from the Securities and Exchange Board of India, the Ministry of Corporate Affairs, the Institute of Chartered Accountants of India, the Reserve Bank of India and the Ministry of Law and Justice.

To access the publication, please click [here](#).

Feedback/queries can be sent to aaupdate@kpmg.com

Previous editions are available to download from: home.kpmg/in

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

This document is meant for e-communication only.