

I wrote to you in October setting out the FRC's perspective on matters that you and your Boards needed to have in mind during the next reporting season. I am writing now to update that advice in the light of the emergence and spread of the coronavirus (COVID-19). This is currently particularly relevant for companies either operating in, dependent on supply chains in, or having close trading associations with China. Depending on the extent to which this virus spreads outside of China, other companies could also become affected.

We encourage companies to consider carefully what disclosures they might need to include in their year-end accounts relating to these events.

The extent of the risk and the degree to which it might crystallise depends on companies' specific business circumstances. These could include, for example, extensive operations or manufacturing in China, with consequential staff shortages and production delays. Other entities might not have a presence in the country but might have significant trading links or global supply chains that are dependent on Chinese-manufactured goods being exported to the UK or elsewhere.

Companies should consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. As well as possible inclusion within a company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment tests and to assess whether leases have become onerous. For December year-end reporters these events would be likely to represent non-adjusting post balance sheet events as at 31 December 2019, given that, at that date, few cases had been confirmed and the virus only just identified. However, for companies with later reporting dates, year-end balances might be affected.

Given the potential for rapid spreading of the virus, required disclosures will likely change over time as more information about the epidemic emerges. As a result, companies will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosure when preparing their year-end reports.