

Resources, actions and the future

What is the report about?

The Lab spoke to investors about the types of information they needed from companies to help understand the impact that COVID-19 was having – both in the short term and how it might impact their longer-term strategy and business model.

What did the report find?

Investors' information needs are evolving all the time and depend on current views about how COVID-19 will develop and the current market situation. However, the Lab identified three key themes: a need for information about resources, actions taken by companies and longer-term plans. The report takes these themes and provides further guidance and examples from current market disclosures around each topic.

Which is the most important area to disclose?

There isn't one overall area; it depends on the company and their exact circumstances. However, generally investors wanted to understand the cash and debt position of companies. They then turn their attention to a focus on operations and strategy, trying to understand how companies are preparing for the future as the crisis abates.

Is this asking a lot from companies?

Rather than defaulting to voluminous boilerplate disclosure, investors want companies to focus on what is most important to their context. The FRC Lab report provides examples of disclosures based on information that investors are seeking, but the circumstances of each company will differ and therefore not all are applicable to every company.

What is the report seeking to achieve?

This report covers reporting practice that meets the attributes that investors are looking for. Disclosure and transparency about a company and its actions allow investors and others (such as customers, suppliers or employees) to make informed decisions. As such, the Lab report exists to encourage transparency.

The report includes a section on dividends - what are the recommendations in this section?

Dividends are and have always been a complex decision for companies and boards, particularly at times of stress. The Lab highlights that what investors are looking for is clear disclosure on the trade-offs and the decisions that boards made about the dividend – even when that is no change in policy.

Going concern, risk and viability

What is the report about?

The level of uncertainty arising from COVID-19 and the recovery mean that for companies, making meaningful disclosures that cover going concern, risk, and viability can be a challenge. In this report, the Lab provides examples of how companies are meeting these disclosure challenges.

Which is the most important lesson from the report?

That uncertainty in outcomes forms a crucial piece of context for investors and other stakeholders. By providing information about the realistic scenarios they have considered over both the short and longer term, companies provide investors with the understanding they need to make their decisions.

Will more companies be highlighting issues on going concern?

It is likely that more companies will include one or more material uncertainties in their going concern report. This does not mean that they are not a going concern. When operations are paused or reduced, there is considerable uncertainty in the current situation about the future. COVID-19 is unprecedented and there is therefore no template as to how operations will be impacted. Therefore, investors seek details of the key assumptions that underpin the board's going concern assessment to inform their decision making.

Should companies have pandemic as a principal risk?

The Lab's previous work on risk clearly showed that what investors want are risks that are specific to the company and its operations. While for some pandemic might be a principal risk, for many it will not. However, what the crisis has shown is the impact that a macro risk can have on lots of areas of companies' operations, and that can magnify and highlight other company-specific risks. We expect that many companies will learn from COVID-19 and consider what it means for their principal risks and risk appetite.

The report covers viability disclosure, what are the key messages to companies in preparing their viability statement?

Viability statements were created as a response to the banking crisis, and in this crisis this disclosure can provide useful information. Strong viability statements can demonstrate and justify a company's confidence in the longer-term prospects and support this with scenarios and sensitivity analysis. This longer-term view is helpful to investors.