

Financial Reporting Pressures and the COVID-19 Crisis

Considerations for the Quarter Ending March 31, 2020

Part Five: Disclosure Considerations

As public registrants prepare their financial reports for the first quarter of 2020, they will be dealing with unique reporting judgments due to the economic impact of COVID-19 and recent government actions. Many of the financial reporting judgments will be especially difficult because of so many unique unknowns such as the duration of the crisis, whether vendors will be able to deliver on commitments, possible accounts receivable collection problems, and other matters that each registrant may be encountering.

To help our clients understand and assess the financial reporting matters under consideration, we are presenting a multi-part series dealing with several of these topics. In conclusion of our series, today's discussion is Part Five and relates to disclosure considerations and in particular describing measurement uncertainties.

Assessing "Uncertainty"

Many financial reporting assertions are based on estimates, judgments, and assumptions, applying the standards of "fairly stated" and "reasonably estimated." These are not amounts that are exact or certain. But how far may a preparer of the financial statements venture from the fairly stated and reasonably estimated standards before producing meaningless assertions that cross into speculation?

Similar to the professional judgments applied when classifying contingent liabilities as remote, possible, or probable; assessing the adequacy of the level of information available to support a financial statement assertion involves significant judgment. Needless to say, the current crisis is going to put a spotlight and a lot of pressure on this situation with so many unknown issues and a wide range of outcomes.

We expect that many registrants this quarter will find themselves in the "we just don't know the impact" category. Put more professionally, under the current circumstances, certain financial

statement assertions may fail to meet the fairly stated and reasonably estimated requirement. If so, disclosure as well as conservatism will be guiding forces for financial reporting decisions; both providing near term solutions for registrants.

It is important to remember that an objective for financial reporting is to provide useful and meaningful information to users of the financial statements that is also relevant and reliable. Where and how the information is represented is actually less important than the fact that the information *is* presented. This is exactly why adequate disclosure when dealing with uncertainties is essential. An informed market is an efficient market, especially in the current crisis.

Disclosing “Uncertainty”

For registrants dealing with uncertainty, there will be key words to use when describing the situation within their financial statements, including notably “could” and “may” when describing possible future events that are not currently predictable in a reliable manner. Seeking advice from advisors, legal counsel, and external auditors will be critical in preparing disclosures involving measurement uncertainty.

As with many financial reporting situations, researching and reviewing comparable treatments can be very useful. For examples of registrants that have already disclosed measurement uncertainties regarding the current situation, we identified the recent disclosures from Accenture and Oracle’s public filings for the quarter ended February 29, 2020, which are found below.

Accenture:

The global spread of the coronavirus (COVID-19) has created **significant volatility and uncertainty** and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations and financial results will **depend on numerous evolving factors** that we **may not be able to accurately predict**, including: the duration and scope of the pandemic; governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our clients and client demand for our services and solutions; our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home; the ability of our clients to pay for our services and solutions; and any closures of our and our clients’ offices and facilities. For example, in India and the Philippines, we have large concentrations of employees performing critical operations. The closure of those facilities, or restrictions inhibiting our employees’ ability to access those facilities, has disrupted, and **could in the future** disrupt our ability to provide our services and solutions and result in, among other things, terminations of client contracts and losses of revenue. **Clients may** also slow down decision making, delay planned work or seek to terminate existing agreements. Any of these events **could** cause or contribute to the **risks and uncertainties enumerated** in the Annual Report and **could** materially adversely affect our business, financial condition, results of operations and/or stock price.

Oracle:

The impacts of the global emergence of Coronavirus disease (COVID-19) on our business are **currently unknown**. We are conducting business as usual with some modifications to employee travel, employee work locations, and cancellation of certain marketing events, among other modifications. We have observed other companies taking precautionary and preemptive actions to address COVID-19 and companies **may** take further actions that alter their normal business operations. We will continue to actively monitor the situation and **may take further actions** that alter our business operations as **may be required** by federal, state or local authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and stockholders. **It is not clear** what the potential effects any such alterations or modifications **may** have on our business, including the effects on our customers and prospects, or on our financial results for our fourth quarter of fiscal 2020, which is historically our largest revenue quarter of our fiscal year, in particular with respect to demand for transactional products such as cloud and on-premise licenses and hardware and certain services that we generally recognize as revenues upon delivery to customers.

Each registrant's situation will be unique, so there isn't a one size fits all answer for handling financial reporting judgments impacted by the current crisis. This includes those for which adequate information is not available upon which to make an assertion; therefore creating the need for thorough disclosures. That said, this will be a major discussion item for registrants with a quarter ending on March 31, 2020 and are assessing the impact of the current crisis.

We hope this discussion is informative and offers practical advice on an approach to deal with the unique circumstance arising from the current crisis. If you have questions or suggestions, please let us know. Thank you.