

June 24, 2020

Financial Reporting in Light of COVID-19:
Statement from the SEC's Office of the Chief Accountant

On June 23, 2020, the SEC's Office of the Chief Accountant (OCA), in anticipation of the upcoming second quarter financial reporting cycle, issued a [statement](#) emphasizing the importance of financial reporting during the COVID-19 pandemic, noting that "high-quality, reliable financial statements form the bedrock of our U.S. capital markets." The statement encourages the financial reporting community to continue providing "a steady flow of timely, decision-useful" financial information that complies with the applicable standards.

The statement recognizes that many public companies will continue to work through complex accounting and financial reporting issues related to the impact of and uncertainties caused by the ongoing COVID-19 pandemic and provides the following guidance:

- *Reasonable Judgments*: The OCA will not object to "well-reasoned judgments" made by companies addressing accounting and financial reporting matters. The OCA emphasized that significant judgments and estimates should be disclosed in a manner that is understandable and useful to investors. The OCA noted that many complex financial reporting issues in the first quarter reporting cycle were resolved through the OCA consultation process and reminded stakeholders that the OCA remains available for consultation, encouraging stakeholders to contact its office with questions they encounter as a result of COVID-19 or other emerging issues.
- *Internal Accounting Controls*: Public companies are required to maintain Disclosure Controls and Procedures (DCP) and Internal Control over Financial Reporting (ICFR). As companies work to maintain the effectiveness of their financial reporting processes, they should consider whether new or enhanced internal accounting controls may be necessary to adapt to a telework environment, and whether changes to their business and ongoing uncertainties could create additional risks of material misstatements. Any change that materially affects or is reasonably likely to materially affect a company's ICFR must be disclosed in the company's quarterly filings in the fiscal quarter in which the change occurred.
- *Ability to Continue as a Going Concern*: If there is "substantial doubt" about a company's ability to continue as a going concern, the statement

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reminds companies to disclose information regarding the conditions giving rise to the substantial doubt, management's evaluation of those conditions, and management's plans to address the concerns. If management's plans do not alleviate the substantial doubt about the company's ability to operate as a going concern, the company must make additional disclosures.

- *Importance of Engaged Audit Committees:* The OCA emphasized the critical importance of audit committees and the need for them to play an engaged, effective oversight role, particularly in these times of rapid change and increased uncertainty.

The OCA's statement is consistent with the [SEC's previous call](#) for companies to make meaningful disclosures in light of COVID-19, which we discussed in our [recent webinar](#). Similar to other disclosures, companies should continue to engage in meaningful, relevant, and specific financial reporting tailored to their specific facts and circumstances.

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