

CSA Staff Notice 51-362

Staff Review of COVID-19 Disclosures and Guide for Disclosure Improvements

February 25, 2021

Introduction

The Canadian Securities Administrators (CSA) have prepared this Staff Notice (**Notice**) to report the results of recently completed continuous disclosure reviews (**reviews**) conducted by CSA staff (**staff or we**) of the disclosures provided by reporting issuers¹ on the impact of COVID-19 to their business. Since the World Health Organization declared COVID-19 as a pandemic on March 11, 2020, COVID-19 has had a material adverse impact on the economy and is posing widespread business challenges for many issuers, including reporting on and disclosing the business impact of COVID-19.

This issue-oriented review assessed compliance of issuers' disclosures of the current and anticipated impacts related to COVID-19 on their respective operations, financial condition, liquidity and future prospects. The reviews also assessed key financial reporting areas applicable to issuers that may be subject to significant judgement and measurement uncertainty in the current environment.

We recognize that issuers are preparing disclosure in a rapidly changing environment. However, meaningful disclosures about the business impacts and potential uncertainties regarding COVID-19 are needed for investors to make informed investment decisions. This Notice summarizes our key review findings and includes some disclosure examples and guidance to assist reporting issuers and their advisors with disclosing and reporting on the impact of COVID-19 to their business and operations.

We will continue to closely monitor issuers' continuous disclosure (**CD**) filings in relation to the impact of the COVID-19 pandemic as part of our ongoing CSA CD review program. For further details, see CSA Staff Notice 51-312 (revised) *Harmonized Continuous Disclosure Review Program*². An issuer's disclosure relating to the impacts and risk factors of the COVID-19 pandemic may also be assessed as part of staff's review of prospectus filings in connection with public offerings.

¹ In this Notice "issuers" means those reporting issuers contemplated in National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102).

² Additional regulatory guidance on COVID-19 can be accessed at the CSA COVID-19 Information Hub at <https://www.securities-administrators.ca/aboutcsa.aspx?id=1885>.

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Part 1 - Executive Summary

The COVID-19 pandemic has significantly impacted the financial condition, financial performance, operations and cash flows of reporting issuers of varying sizes and industries. This has specific financial reporting implications for issuers.

We were encouraged by the quality of disclosures provided by many issuers significantly impacted by COVID-19. However, we noted certain areas where boiler-plate disclosure was provided regarding the current and expected impact of COVID-19 on an issuer's business with insufficient detail of entity-specific COVID-19 related risks, including but not limited to, the nature and extent of credit risks and liquidity uncertainties. We also observed instances of unbalanced or overly promotional disclosure and isolated non-compliance for non-GAAP financial measures (NGMs) and forward-looking information (FLI). It is important for issuers to tailor their disclosures to provide investors with an entity-specific level of insight to understand the operational challenges, financial impacts, risk profile and the issuer's operational responses related to the COVID-19 pandemic. Such information is necessary to meet securities requirements and to help foster investor confidence in the current environment.

The reviews have resulted in outcomes where no action was required, requests for prospective disclosure enhancements were made, or communication is ongoing to resolve the identified issues.

At a high level, we emphasize the following for issuers to consider in their upcoming CD filings:

- There is no “one size fits all” model for issuers to follow when assessing the disclosure implications of COVID-19.
- Disclosures are expected to be transparent and balanced.
- Provide disclosures on COVID-19 that facilitates an understanding of:
 - The current and expected impact of COVID-19 on the issuer's operations and financial condition, including liquidity and capital resources.
 - The key risks that the COVID-19 pandemic presents to the issuer.
 - Known trends, demands, events or uncertainties related to COVID-19 that management reasonably believes will materially affect the issuer's future revenues, expenses or projects.
 - The operational changes and other measures taken by management in response to COVID-19.
 - How COVID-19 has impacted the issuer's capacity to meet working capital requirements, debt covenants, planned growth or funding of future development activities and capital expenditures.
 - How the COVID-19 pandemic has impacted areas of financial reporting subject to significant judgement and measurement uncertainty in the current environment.
 - How the issuer has assessed impairment of non-financial assets given the extended impact of the COVID-19 pandemic. Where applicable, sensitivity analysis and disclosures relating to key assumptions will be especially important and should be both realistic and supportable.
 - The accounting policy for, and nature and extent of government grants recognized in the financial statements.

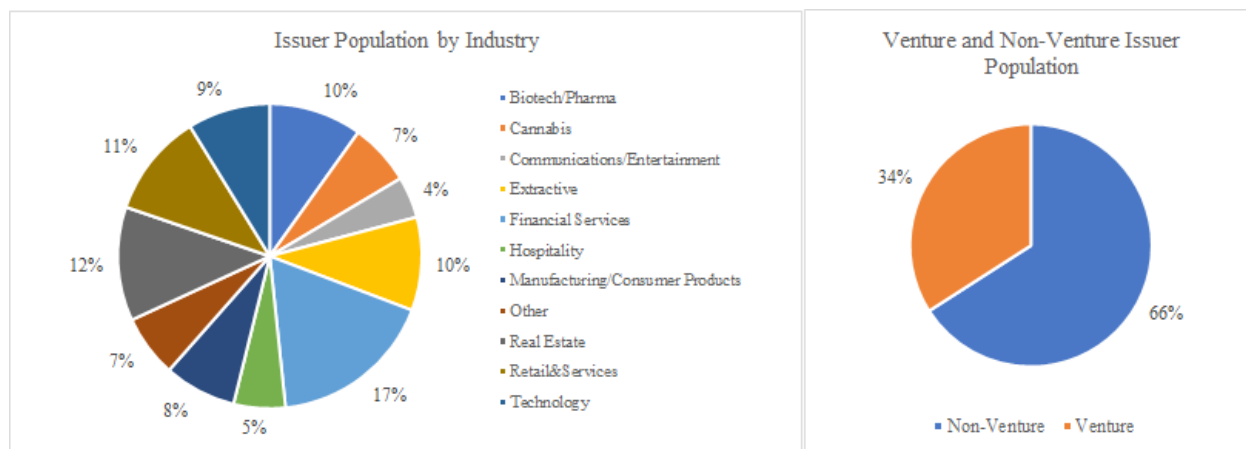
Part 2 - Scope and Methodology

Staff took a risk-based approach in the selection of issuers by considering both qualitative and quantitative criteria. Issuers selected for review included those identified as being materially impacted

(both positively and adversely) by the COVID-19 pandemic in terms of their operations and financial performance, as well as issuers that appeared to have a higher risk of impairment and/or financial distress.

Staff examined the CD filings of approximately 90 issuers, focusing on the disclosures of the most recent interim reporting period ending September 30, 2020 for issuers with a calendar financial year end. The issuers selected for review varied by size and by industry as illustrated in the charts below:

Figure #1



Our reviews primarily focused on issuers' disclosure obligations under National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102). We also assessed compliance with certain recognition, measurement and disclosure requirements in International Financial Reporting Standards (IFRS) and compliance with CSA Staff Notice 52-306 (*Revised*) – *Non-GAAP Financial Measures* (SN 52-306). The following outlines the focus areas of the reviews conducted:

MD&A	<ul style="list-style-type: none"> • Overall performance and discussion of operations • Known trends, events and uncertainties • Liquidity and capital resources • Debt covenants • Risk factor disclosure
Financial Statements	<ul style="list-style-type: none"> • Impairment of non-financial assets • Going concern • Significant judgements and measurement uncertainties • Expected credit losses • Fair value changes for the real estate industry • Financial instrument risk disclosures • Government assistance • COVID-19 related amendments to IFRS 16 <i>Leases</i> for lessees
Other Regulatory Requirements	<ul style="list-style-type: none"> • NGMs • FLI • Material change reporting • Promotional disclosures

Part 3 - Summary of Results and Key Themes

Our reviews covered a variety of industries and highlighted the diverse impacts of the COVID-19 pandemic on issuers' operations and businesses. Some of these impacts included:

Operational Impacts	Financial Impacts
<ul style="list-style-type: none"> • Decrease or increase in demand for products or services • Modification of operations due to workplace health and safety requirements • Constraints on human resources • Operational closures • Supply or distribution channel disruptions • Change in prices • Altered terms with customers/lessees/borrowers • Inability to continue capital projects 	<ul style="list-style-type: none"> • Decrease or increase in revenues • Restructuring charges • Asset impairments • Credit losses • Loan loss and receivable provisioning • Fair value changes • Increase or decrease in other expenses • Negative working capital • Negative cash flow from operations • Material uncertainties regarding going concern

Issuers adjusted their operations in numerous ways to manage the impact of COVID-19 on their operations and liquidity. Various measures/operational responses disclosed by issuers included:

Measures Taken to Reduce COVID-19 Impact/ Operational Responses	<ul style="list-style-type: none"> • Government assistance programs • Change in product or service mix • Reduction in discretionary expenses • Change in budget or deferral of capital projects/acquisitions • Decrease in salaries/director fees • Employee layoffs • Additional oversight measures • Modification of payment terms with suppliers • New or amended credit agreements • Change in dividends or distributions • Accessing third party financing • Implementation of business continuity plans • Suspension of issuer share buybacks • Disposal of assets
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Most issuers reviewed were proactive in providing quality and detailed disclosures. For example, we observed several issuers significantly expand their MD&A to provide detailed operational updates addressing the impact of COVID-19 as well as issuers providing additional disclosure addressing debt covenants and related compliance. We also noted most issuers adequately disclosed impairments of non-

financial assets due to a deterioration in their business since the onset of the pandemic. However, we identified several areas where disclosure could be improved for many issuers including the following:

Area of Disclosure	Key Observations
MD&A	<ul style="list-style-type: none"> • Discussion of measures taken to reduce COVID-19 impact - Many issuers provided “lists” of measures employed to manage operational and liquidity risks but did not provide an adequate discussion to address the anticipated impact to the issuer. • Analysis of overall performance and operations - Most issuers that quantitatively disclosed variances related to COVID-19 (e.g., impact to sales) did not explain the methodology used by management in determining that fluctuations were isolated to COVID-19. • Several issuers provided limited disclosure of known trends or events related to COVID-19 that are likely to affect future performance. • Liquidity and capital resources - Many issuers with material liquidity risks did not disclose in detail their ability to meet working capital requirements, planned growth initiatives or to fund developmental activities and capital expenditures. Lack of disclosure regarding trends or expected fluctuations in liquidity taking into account events or uncertainties related to COVID-19 was commonly observed. • Risk factor disclosure - Several issuers provided “lists” of risks without discussion or general disclosures that touched on general economic or societal impacts of COVID-19 and did not describe entity-specific COVID-19-related risks.
Financial Statements	<ul style="list-style-type: none"> • General - Some issuers failed to adequately update their disclosures and assumptions impacted by COVID-19 in the context of testing impairments of goodwill and intangible assets, measuring fair value (FV) and estimating expected credit losses. • Significant judgements and measurement uncertainties – Some issuers failed to include entity-specific disclosure for significant judgements or measurement uncertainties or only included this disclosure in their MD&A but not in their financial statements. • Impairment of non-financial assets – A few issuers did not identify reasons for impairments or just noted “negative economic impacts of COVID-19” as an impairment indicator for all cash generating units (CGUs) but did not elaborate on those impacts. • Going concern - Some issuers breached financial covenants during the reporting period but did not disclose the implications of breaches on the issuer's ability to continue as a going concern. Some issuers disclosed “close call” situations but did not disclose the mitigating actions that impacted their determination that there were no material uncertainties that cast significant doubt on the issuer’s ability to continue as a going concern (e.g. successful negotiation of credit facilities subsequent to period end). • Government assistance - Over half of the issuers we reviewed recognized, or disclosed in subsequent events, COVID-19 related government assistance in their financial statements since the outbreak of the COVID-19 pandemic. Some issuers did not disclose the nature and extent of the government assistance or the

Area of Disclosure	Key Observations
	<p>accounting policy adopted including the methods of presentation.</p> <ul style="list-style-type: none"> • Expected credit losses (ECL) - Only a few issuers disclosed the use of COVID-19-induced adjustments/overlays to their ECL models. • Financial Instrument Risk Disclosure - Some issuers that experienced material adverse impacts of COVID-19 did not provide an entity-specific update to their risk disclosure in the financial statements. • COVID-19 related amendments to IFRS 16 <i>Leases</i> for Lessees – Certain issuers did not sufficiently disclose whether they applied the practical expedient to either all or some of their rent concessions.
NGMs	<ul style="list-style-type: none"> • NGMs adjusted for COVID-19 - Most issuers did not present NGMs that adjusted for the impact of COVID-19. However, our review found isolated instances of potentially misleading NGMs in relation to COVID-19 (e.g., adjusting for expenses attributable to COVID-19 without adjusting for government subsidies or “normalizing” revenue or expenses for the year-to-date period based on more positive results for one quarter).
FLI	<ul style="list-style-type: none"> • FLI related to COVID-19 - In certain cases, we observed insufficient disclosure of assumptions used to develop FLI and failure to adequately update the MD&A for events and risks that could cause actual results for future periods to differ materially from previously disclosed FLI.
Material Change Reporting	<ul style="list-style-type: none"> • If COVID-19 has an equal effect throughout an issuer’s industry, a material change report may not be required. Only a few issuers reviewed filed material change reports in relation to COVID-19 although in some instances changes to the issuer’s business, operations or capital were more unique or more significant to them than to others in their industry.
Promotional Disclosures	<ul style="list-style-type: none"> • Potentially misleading disclosures - Some issuers concentrated in the biotech/pharma industry provided disclosure in relation to COVID-19 that was overly promotional and/or lacked specificity to fully address the issuer’s business intentions and expected milestones.

Please refer to **Appendix A – Key Observations and Disclosure Considerations** – for more detail regarding the significant issues identified in our reviews and disclosure guidance. Please refer to **Appendix B – Disclosure Examples** where we have included some examples of deficient disclosure contrasted against improved entity-specific disclosure. The observations and disclosure considerations presented do not represent an exhaustive list and do not represent all the requirements that could apply to a particular issuer’s situation. Issuers should consider their specific business and operations and provide clear and transparent disclosure of the impact of COVID-19.

Appendix A – Key Observations and Disclosure Considerations

A.1 MD&A Reporting

MD&A is the cornerstone of a reporting issuer’s overall financial disclosure and should provide an analytical and balanced discussion of the issuer’s results of operations and financial condition through the eyes of management. MD&A disclosure should be specific, useful and understandable. The MD&A requirements are set out in Form 51-102F1 *Management’s Discussion and Analysis* (**Form 51-102F1**).

Some of the observations and considerations below may be relevant for issuers that prepare an annual information form (AIF) with reference to Form 51-102F2 *Annual Information Form* (**Form 51-102F2**). Specifically, issuers should consider additional disclosure for COVID-19 under Item 4-*General Development of the Business* and Item 5-*Describe the Business* of Form 51-102F2.

Focus Area	Observations	Considerations
General: Discussion of Operational Status	<ul style="list-style-type: none"> Some issuers provided detailed operational updates in press releases but included limited disclosure in MD&A filings. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> Many affected issuers significantly expanded their MD&A to explain the impact of COVID-19 to the issuer’s industry, operations, customers, suppliers etc. Several issuers disclosed industry and relevant operational information to help users frame and understand the effects on the issuer’s financial results. 	<ul style="list-style-type: none"> Provide a detailed and transparent discussion on how COVID-19 has altered the issuer’s industry and day to day operations. Insight should be provided into the issuer’s current operating status and the operational challenges that management is monitoring. This will vary materially by issuer and by industry. MD&A is a standalone document. Material operational updates should be reflected in MD&A filings to provide additional context for analyzing financial results. Having a separate “COVID-19” section in the MD&A preceding the discussion of financial results may provide a useful framework in understanding the issuer’s analysis of financial performance, financial condition and liquidity. <p>Issuers should consider:</p> <ul style="list-style-type: none"> Impact of health and safety guidelines on operations and on how the issuer conducts its business How the current environment has altered demand or ability to provide products and services (both adversely and positively) Details of operational closures and restrictions Providing information to understand the impact of shutdowns and closures Disclosing relevant industry data that assists with understanding restrictions and other impacts to the issuer’s business Discussing how customers and suppliers have been impacted and the effect on the issuer Providing a discussion for each segment or geographic location to the extent operations are impacted differently Explaining how industry and economic factors have uniquely impacted the issuer <p>Reference: Part 1, Item 1.2, Item 1.4 of Form 51-</p>