

Performance reporting under COVID-19		
September 2022		
Contact	Senior Executive	Executive Director
s 22		

Key Messages

ASIC responded to the possibility of some companies manipulating reported earnings under COVID-19 conditions. ASIC's proactive reviews of financial reports and response to complaints or other intelligence, focussed on areas such as asset values and provisions.

ASIC's encouraged useful and meaningful disclosure of company performance during the pandemic and the impact of the pandemic. However, information should not be presented that was potentially misleading.

ASIC also addressed disclosure of JobKeeper amounts.

Background - manipulating profits

A recent media enquiry referred to suggestions that ASIC's approach to misleading information was an excuse for inadequate disclosure of the impact of the pandemic on company performance.

To the contrary, ASIC responded to the possibility that companies could manipulate earnings in financial reports and market announcements in the following areas:

Not making adequate asset impairment write downs or provisions;

Making excessive asset impairment write downs, making excessive provisions or understating revenue and attributing the results to COVID-19 conditions. This may enable profits to be overstated at a later time;

Attributing impairment or declining performance solely to COVID-19 factors that may be attributable to other factors, such as:

poor performance prior to COVID-19 impacts; and

new competitors or new technologies, or changes in the company's business model; and

Disclosing alternative profit measures that exclude the impacts of COVID-19 conditions.

ASIC actions

ASIC actions include:

- proactive and reactive surveillance of financial reports of listed companies and other public interest entities to identify possible manipulation of earnings. Where earnings were materially misstated, ASIC seeks appropriate disclosure to the market and considers enforcement action;
- issuing media releases ahead of the June 2020 and December 2020 reporting seasons on financial reporting focus areas. For example, ASIC Media Release 20-157MR Focuses for financial reporting under COVID-19 conditions and ASIC Media Release 20- say that: "Entities with businesses adversely affected by the COVID-19 pandemic should focus on the reporting of asset values and financial position. Investors will expect clear disclosure about the impacts on an

entity's businesses, any risks and uncertainties, key assumptions, management strategies and future prospects"; and "Significant factors not attributable to the COVID-19 pandemic should be included and given appropriate prominence.";

- providing guidance on disclosures about performance through the ASIC webpage COVID-19 implications for financial reporting and audit: Frequently asked questions (FAQs) provides further guidance on disclosures about performance, For example: Hypothetical profit measures that purport to show the result had the impact of the COVID-19 pandemic not occurred are likely to be misleading; Splitting revenues, expenses or profit or loss between pre-COVID-19 and post-COVID-19 periods is problematic. A cut-off point cannot generally be clearly identified and the pre-COVID-19 period may not be representative of future performance; and Disclosing both COVID-19 and non-COVID-19 drivers of a company's result; and
- We also updated our FAQs to indicate that where an alternative profit measure had been disclosed without impairment losses in 30 June 2020 or 31 December 2020 reports, that profit measure should also exclude any reversals of those impairment losses at 30 June 2021.

Background - Jobkeeper reporting

ASIC media releases on financial reporting focuses at 30 June 2020 and 31 December 2020 (20-157MR and 20-325MR) and an FAQ on our website on reporting under COVID-19 conditions said that "Entities should appropriately account for each type of support and assistance from government, lenders, landlords and others. Both the financial report and OFR should prominently disclose significant amounts, the commencement date and expected duration of support or assistance. Examples include JobKeeper, land tax relief, loan deferrals and restructuring, and rent deferrals and waivers." The ASIC releases on focuses at 30 June 2021 and 31 December 2021 (20-129MR and 20-342MR) and a revised FAQ added "Entities should also disclose the amount of any material voluntary returns of JobKeeper or other support or assistance."

Accounting standards do not specifically require separate disclose of JobKeeper receipts but require information that is material in the context of the overall financial report to be disclosed. Information is material if it could be reasonably be expected to affect decision-making by primary users of the report - generally investors, potential investors, lenders and creditors. The JobKeeper receipts may have been small compared to total revenue for many companies.

The Corporations Act 2001 was amended in September 2021 to require listed entities to give a notice to their market operator setting out JobKeeper amounts received, the number of individuals for whom the entity received JobKeeper, and any amounts voluntarily repaid.