

Notice Regarding the Disclosure of Corporate Information Concerning the Impact of the COVID-19 Infection in Quarterly Securities Reports

July 1, 2020
Financial Services Agency

1. Introduction

Regarding the COVID-19 infection, the central government's declaration of a state of emergency issued on April 7 was cancelled on May 25, 2020. However, uncertainties still remain and the pandemic is supposed to be continuously exerting significant impacts on the business environments of a number of listed companies. In light of such circumstances, the FSA issued the "Notice Regarding the Disclosure of Corporate Information Concerning the Impact of the COVID-19 Infection"¹ with regard to securities reports on May 21. The FSA further issues this notice because the appropriate disclosure of corporate information concerning the impact of the COVID-19 infection in quarterly securities reports on a timely basis is also considered to be important for investors' investment decisions.

2. Disclosure of corporate information concerning the impact of the COVID-19 infection in quarterly securities reports

(1) Deadline for submission of quarterly securities reports

In response to the spread of the COVID-19 infection, the FSA amended the Cabinet Office Order on Disclosure of Corporate Affairs and other laws and regulations on April 17, 2020, and uniformly extended the deadlines for annual securities reports, quarterly securities reports and other reports that should be submitted from April 20 to September 29 to up to the end of September, without requiring each company to file an application individually.

(2) Disclosure of financial information (additional information)

The Summary of the Discussions publicized by the Accounting Standards Board of Japan, titled "Approach to the Impact of the COVID-19 Infection upon Making Accounting Estimates," was updated² on June 26, 2020, presenting the approach for reporting quarterly financial results (publicized on April 10, supplemented on May 11, and updated on June 26).

The updated Summary of the Discussions states that if a company disclosed additional information on assumptions, including the assumed future spread of infection and timing of resumption of a normal situation, in financial statements for the preceding business year, and has made any significant changes to those assumptions in its quarterly settlement, "it is considered necessary to disclose the details of the changes as additional information in quarterly financial statements, except where such details are included in other notes."

It is also stated that if a company did not disclose assumptions in financial statements for the preceding business year, but the significance of the assumptions has increased and the disclosure has come to be required in its quarterly settlement, "it is considered necessary to disclose the assumptions as additional information in quarterly financial statements, except where they are included in other notes."

Furthermore, it is stated that if a company disclosed additional information on

¹ <https://www.fsa.go.jp/news/r1/sonota/20200521/01.pdf>

² <https://www.asb.or.jp/jp/info/91074.html>

assumptions in financial statements for the preceding business year and has made no significant changes to those assumptions in its quarterly settlement, "if the fact of having made no significant changes is considered to be information helpful for users of financial statements, it is preferable to state that fact as additional information in quarterly financial statements."

Regarding accounting estimates in light of the impact of the COVID-19 infection, companies are strongly expected to provide information to investors properly on a timely basis in quarterly securities reports, based on the purport of the Summary of the Discussions publicized by the Accounting Standards Board of Japan.

It should be noted that in cases where a company has reviewed the assumptions concerning the impact of the COVID-19 infection in making accounting estimates, while taking into consideration subsequent changes in business environments, and has made some changes to its accounting estimates accordingly, the company is required to reflect the influence of those changes in quarterly financial statements.³

(3) Disclosure of non-financial information (narrative information)

It is provided that, regarding accounting estimates and assumptions for making relevant accounting estimates stated in the securities reports for the preceding business year, "when there have been any significant changes in such accounting estimates or assumptions, that fact and the specific details of the changes should be described briefly and in an easy-to-understand manner" as non-financial information (narrative information) in quarterly securities reports.⁴ However, when these are already disclosed as additional financial information, it is permitted to only state to that effect and omit them in the section of non-financial information.

In addition to changes in accounting estimates, when any significant changes have been made to descriptions on the impact of the COVID-19 infection and countermeasures in the section of "Risk factors,"⁵ or descriptions in the section of "Management discussion and analysis of financial condition and results of operations (MD&A)" in the securities reports for the preceding business year, including the review of the business policies and strategies due to the impact of the infection, it is also recommended to describe the details of the changes in quarterly securities reports.⁴

When describing significant changes from the securities reports for the preceding business year as non-financial information (narrative information) in quarterly securities reports, key points presented in "Q&A on the Disclosure of Narrative Information Regarding the Impact of COVID-19 Infection,"⁶ which was publicized on May 29, 2020, will be helpful. Please check them as needed.

³ Paragraph (17) of Corporate Accounting Standards No. 24, "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections"; Paragraphs (14), (16), (17), etc. of Corporate Accounting Standard Application Guideline No. 14, "Implementation Guidance for Accounting Standards for Quarterly Financial Statements"

⁴ Sections of "Risk factors" and "Management discussion and analysis of financial condition and results of operations (MD&A)," etc. in quarterly securities reports; Regarding business policies and strategies, if there have been any significant changes in relevant descriptions in already submitted securities reports, it is required to describe the details of and the grounds for those changes in the section of "Management discussion and analysis of financial condition and results of operations (MD&A)" in quarterly securities reports. See Notes (7), (8), etc. for preparing Form 4-3 of the Cabinet Office Order on Disclosure of Corporate Affairs (Order of the Ministry of Finance No. 5 of 1973).

⁵ Notice No. 16 "FSA's view concerning public comments on the amended Cabinet Office Order" (publicized on January 31, 2019) states that "Descriptions in the section of 'Risk factors' do not need to be accurate predictions of all uncertain future events, but should be concrete specific explanations of major risks that top management recognizes as being likely to exert a significant impact on the results of their operations as of the time of submitting securities reports."

⁶ https://www.fsa.go.jp/news/r1/sonota/20200529_kaiji/01.pdf

As stated in the "Notice Regarding the Disclosure of Corporate Information Concerning the Impact of the COVID-19 Infection" with regard to securities reports issued on May 21, 2020, the disclosure of information on the impact of the COVID-19 infection as financial information (additional information) and non-financial information in securities reports is included as the subject of review of securities reports. The FSA will also check the disclosure of relevant information as financial information (additional information) and non-financial information in quarterly securities reports as necessary as part of the review.