



International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

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IOSCO Statement on Financial Reporting and Disclosure during Economic Uncertainty

The International Organization of Securities Commissions (IOSCO) emphasizes issuers' need for fair, transparent and timely disclosure about impacts of economic uncertainty

In light of the evolving global economic outlook, IOSCO remains fully committed to the consistent application and enforcement of high quality reporting standards and disclosure regulations, which are of critical importance to the proper functioning of the capital markets.¹

Factors affecting current economic conditions include, but are not limited to, supply chain challenges; on-going impacts of the COVID-19 pandemic; evolving impacts of the conflict in Ukraine; escalating energy supply shortages and costs; labor shortages; inflationary pressures; volatility in currency exchange rates; rising interest rates; changes in monetary and fiscal policies; and other responses from central banks and other government authorities. These factors can increase economic uncertainty, which may affect matters such as issuer liquidity, asset values, exposure to loss, and business continuity.

These global challenges may result in increasing estimation uncertainty for those responsible for financial reporting because the assumptions used to prepare the financial statements may materially change in the near term. These circumstances highlight the importance of high quality and transparent disclosures that clearly explain significant management judgments, key assumptions, and the identification of known risks. In addition, it is incumbent on issuers to explain how changes in these factors may affect the amounts and trends reported in the historical financial statements so that investors can better assess an issuer's future financial

¹ Refer to IOSCO Objectives and Principles of Securities Regulation, May 2017. IOSCO Principles for Issuers, number 16 notes that "There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions."



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prospects.² Thus, issuers, their audit committees or those charged with governance (TCWG)³ and external auditors must be diligent in fulfilling their responsibilities to ensure that investors receive accurate, transparent and timely information that supports investment decisions.

Consistent with its Principles of Securities Regulation, IOSCO reminds issuers, external auditors and audit committees (or TCWG) of the important role each plays in providing investors with high-quality, reliable, timely, and transparent financial information, especially in times of heightened uncertainty. It is the responsibility of issuers to develop well-reasoned and supportable estimates, establish and maintain effective internal controls over financial reporting, and provide transparent, entity-specific disclosures about the current and potential future effects of economic uncertainty. The external auditor is responsible for performing high-quality assurance services applying appropriate professional skepticism, including the identification of Key Audit Matters (KAM), in accordance with professional standards. Audit committees (or TCWG) are responsible for oversight of the issuer's financial reporting and the external audit process.

1. Considerations for Issuers

Financial Statement Considerations

Issuers should carefully evaluate how economic uncertainty and changes in assumptions affect their operations, create risks of fraud and deficiencies in internal control, and affect the amounts reported in the financial statements, including but not limited to the following.⁴

Going concern

The deterioration of economic conditions may cast doubt on an issuer's ability to continue as a going concern. We remind issuers to consider all available information about the future looking out over a period at least, but not limited to, twelve months from the end of its reporting period that may affect its ability to continue as a going concern.⁵ We further remind issuers to

² Paragraphs 1.15 and 1.16, IFRS Conceptual Framework (2018).

³ Refer to [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality, 17 January 2019](#).

⁴ These considerations are relevant both for annual financial statements and any interim reporting by issuers.

⁵ Paragraphs 25-26, IAS 1 – Presentation of Financial Statements.



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perform this assessment until the date the financial statements are authorized for issue.⁶ When this assessment involves significant judgments or uncertainties, issuers should clearly disclose these matters so that investors can make appropriate risk assessments.⁷

Events after the reporting period

Times of uncertainty and rapid change increase the risk that a material event will occur after the reporting period but before the financial statements are authorized for issue. Determining whether events are adjusting or non-adjusting events requires evaluation of the nature of the events and may involve significant judgment.⁸

Material adjusting events should be reflected in the financial statements before the statements are authorized for issue. For material non-adjusting events, issuers are required to disclose the nature of the event and its financial effect or a statement that such an estimate cannot be made.⁹ Issuers should also consider if additional information is needed to help investors understand how events after the reporting period may affect business operations and trends, including changes to strategic plans that may or may not be reflected in the historical financial statements.¹⁰

Updating and assessing significant judgments, estimates and estimation uncertainty

Significant judgments, estimates and estimation uncertainty identified when preparing financial statements will need to be assessed, updated and monitored to ensure they reflect current circumstances amid evolving conditions. Increased economic uncertainty may make it more challenging to estimate information such as projected future cash flows used in an impairment assessment. We remind issuers of their responsibility to transparently disclose information about assumptions and material uncertainties in a way that helps investors understand significant risks of adjustment to the financial statements in future periods.¹¹ Issuers should provide clear and transparent disclosures, including giving consideration as to

⁶ Paragraphs 14-16, IAS 10 – Events after the Reporting Period.

⁷ Paragraph 122, IAS 1 – Presentation of Financial Statements and [July 2014 IFRIC Update and IASB Foundation - *Going Concern – a focus on disclosure*](#), January 2021.

⁸ Paragraphs 8 to 11 of IAS 10 – Events after the Reporting Period.

⁹ Paragraph 21 of IAS 10 – Events after the Reporting Period.

¹⁰ Paragraph 31 of IAS 1 – Presentation of Financial Statements.

¹¹ Paragraphs 123, 125 and 129 of IAS 1 – Presentation of Financial Statements.



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whether information about the susceptibility of carrying amounts to change and the range of reasonably possible outcomes would be appropriate.

Examples of management judgments that may be subject to higher levels of estimation uncertainty in the current economic environment may include: the control of a subsidiary; significant influence over an associate; joint control of a joint arrangement; the useful life of long-lived tangible and intangible assets and any potential impairment of those assets; classification of an operation as a discontinued operation; conclusions that transactions are probable of occurrence; the recoverability of deferred income tax assets; the valuation of inventory; fair value measurements; going concern uncertainties, and the nature and extent of risks arising from financial instruments.

Changes in circumstances may also affect the reliability of previous assumptions and require issuers to revise assumptions and valuation models to consider multiple scenarios and possible outcomes. For example, issuers may need to update assumptions used to determine the recoverable amount of a non-financial asset to reflect inflationary pressures, rising interest rates or supply chain-related shortages that may limit the availability of materials or introduce volatility in the cost of materials. In the case of financial assets, shifts in the geopolitical and global financial climate may result in a significant increase in credit or liquidity risk, which may necessitate revisiting the methods or assumptions used to determine expected credit losses or fair values of financial instruments.¹² Additionally, current events may affect an issuer's compliance with provisions of a long-term loan arrangement. An issuer will need to carefully monitor its compliance with the provisions of its long-term loan agreements and determine if disclosure should be made about how a breach has or could affect its financial position and liquidity.¹³

Cybersecurity risks

Market volatility and changes in business practices in response to factors contributing to economic uncertainty, such as remote working during the pandemic,¹⁴ have also increased

¹² Paragraph B5.52 of IFRS 9 – Financial Instruments and Paragraph 32 of IFRS 7 – Financial Instruments: Disclosures.

¹³ Paragraphs 31 and 74 of IAS 1 – Presentation of Financial Statements.

¹⁴ [IOSCO - Operational resilience of trading venues and market intermediaries during the COVID-19 pandemic & lessons for future disruptions - – July 2022.](#)



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cybersecurity risks for some issuers. Cybersecurity threats and incidents¹⁵ pose increasing risks to issuers and these can impact their financial performance or position. In circumstances where cybersecurity incidents could be material, investors could benefit from timely disclosure including (i) a description of the cyber incident, and (ii) their impacts on the issuer's financial position results of operations and business.¹⁶

Non-GAAP financial measures

Non-GAAP financial measures, also referred to as Alternative Performing Measures (APMs), can be useful to investors when they provide additional insight into an issuer's financial performance, financial condition, and cash flow. However, an inappropriate use of Non-GAAP financial measures has always been a cause of concern to IOSCO, particularly, when non-GAAP financial measures are presented inconsistently from period-to-period, defined inadequately, or are used to obscure rather than supplement financial information determined in accordance with the applicable accounting framework. In the current environment, it is particularly important that issuers be mindful of the elements of reliable and informative non-GAAP financial measures that are not potentially misleading.¹⁷ Given the uncertainty in the current environment, issuers should carefully evaluate the appropriateness of an adjustment or alternative profit measure. For example, there may be a limited basis for management to conclude that adjustments related to the current economic environment are "non-recurring", "infrequent", or "unusual". Additionally, the presentation of a measure of sales and/or profit that is calculated using hypothetical scenarios (e.g., had it not been for the effects of recent economic events, the company's sales and/or profits would have increased by XX%) would not be appropriate.

2. Consideration for Auditors

We remind external auditors of their responsibility to apply professional skepticism when considering the consequences of the current economic uncertainty on an issuers' financial statements and related disclosures and also of their responsibility to conduct robust risk

¹⁵ [FSB - Cyber Incident Reporting: Existing Approaches and Next Steps for Broader Convergence – October 2021.](#)

¹⁶ [IOSCO - Cyber Security in Securities Markets – An International Perspective – April 2016](#)

¹⁷ Refer to [IOSCO's Statement on Non-GAAP Financial Measures](#), 7 June 2016.



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assessments.¹⁸ For example, external auditors should obtain audit evidence that is responsive to information that may cast doubt about the entity’s economic viability especially when it is contrary to information provided by management or others. Further, we remind external auditors to update risk assessments when planning and conducting audits to ensure the audit plan reflects the impact of economic uncertainties on issuers. For example, changes in business processes and practices in response to geopolitical events and economic stress may increase the risk of fraud¹⁹ or result in circumstances that give rise to going concern uncertainties.²⁰ In the case of a going concern uncertainty, we remind external auditors to scrutinize management’s going concern assessment and plans to mitigate uncertainties, evaluate the reasonableness of management’s assumptions and corroborate them with third party evidence when available, and evaluate the appropriateness and completeness of management’s disclosures. Finally, when evaluating all audit evidence obtained, auditors should step back and consider all information in the light of the current economic uncertainties when coming to a conclusion about going concern and, for instance, measurement of assets and liabilities.

A dynamic economic environment may also make it more likely that the external auditor may need to emphasize additional matters, address a material uncertainty relating to the issuer’s going concern conclusions or report a new KAM in its audit report.²¹ We remind external auditors that reporting of KAMs includes a thorough description of how the auditor addressed these matters in the audit. Finally, we emphasize the importance of the auditor’s dialogue with management and audit committees (or TCWG) about these key areas of an audit.

When non-GAAP measures are included in the annual report, external auditors are required to consider whether those non-GAAP measures and key performance indicators are consistent with information contained in the financial statements and enhances rather than obscures investors’ understanding of such information.²²

¹⁸ Refer to July 2022 [IAASB Guidance: ISA 315 \(Revised 2019\) Identifying and Assessing the Risks of Material Misstatement](#).

¹⁹ Refer to May 2022 IAASB [Non-Authoritative Guidance: The Fraud Lens – Interactions between ISA 240 and Other ISAs | IFAC \(iaasb.org\)](#).

²⁰ [ISA 570 – Going Concern](#) and also refer to August 2022 IAASB [Non-Authoritative Frequently Asked Questions: Reporting Going Concern Matters in the Auditor’s Report](#).

²¹ Refer to August 2022 IAASB [Non-Authoritative Frequently Asked Questions: Reporting Going Concern Matters in the Auditor’s Report](#).

²² Refer to ISA 720 (Revised) – The [Auditor’s](#) Responsibilities Relating to Other Information



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3. Consideration for Audit Committees (or TCWG)

Active oversight of the financial reporting and audit processes by the issuer’s audit committee (or TCWG) supports the provision of reliable, high-quality information to investors.²³ We encourage audit committees (or TCWG) to engage in open, timely and meaningful dialogue with management and external auditors to ensure that key risks have been identified and addressed; disclosures made by management are appropriate; estimates and judgments applied are sound; and it is clear how changes in circumstances have affected or may affect the amounts reported in the financial statements. Audit committees (or TCWG) should not feel inhibited by management from consulting with, when considered necessary, an external party (for example, and as applicable, a regulator or an independent third-party expert) in carrying out their duties where a treatment chosen by management does not reflect their understanding of the substance of an arrangement.²⁴

Conclusion

We encourage issuers, external auditors, as well as audit committees (or TCWG) to be particularly vigilant in times of economic uncertainty in their consideration of how risks and uncertainties that could affect or have affected an issuer’s operations, financial condition, cash flows and prospects can be transparently communicated to investors.

²³ Refer to [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality, 17 January 2019](#).

²⁴ Refer to [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality, 17 January 2019](#).