

Welcome to the second issue of our Listed Issuer Regulation Newsletter.

The Covid-19 pandemic has caused severe disruption to economic activities worldwide and created significant uncertainties in the current business environment. While issuers are taking measures to adapt to this challenging environment, it is important to keep investors up-to-date in the interest of an informed and efficient market.

This newsletter contains observations based on issuers' recent announcements of business updates, and guidance on best practices in making disclosures in the current environment.

We welcome any feedback on its content. Please send your thoughts and comments to listingnewsletter@hkex.com.hk.

Business updates

The Covid-19 pandemic's impact on an issuer's business operations varies according to individual circumstances and management responses are also specific to each issuer's own situation. An issuer should update investors on the impact of the Covid-19 pandemic on its operations, including but not limited to its impact on the issuer's operating results, measures it has taken or will take in light of changes in the operating environment, any adjustments to future operating plans and any material impact on its financial resources and cash flow.

We make the following observations based on our review of issuers' business updates:

- **Announce information that is specific and where possible, provide quantitative measures of the financial impact.** This may include, for example, a breakdown of revenue by geographical location and estimate percentage reduction in revenue, updated

sales estimates for the first quarter 2020, and estimates of the revised operating capacity in light of closures. In some cases issuers reported on specific events (e.g. government mandated closures and supply chain disruptions) and may not have information on its financial impact at the relevant time of the announcement, in these circumstances issuers should provide further updates at a later date.

- **Provide assessments on cost measures and liquidity positions.** Issuers commonly reported on the impact of recent events to their revenue positions. To provide investors with a full assessment of their current operating position, issuers should also consider disclosing cost control measures and the effects of the changes to the operations on their financial resources, including their cash flow and liquidity positions.



- **Continuously review the current liquidity position and expected financial resource needs,** as changes to the operating environment may have a material impact on issuers' financial resources. Where events related to Covid-19 have a material impact on an issuer's financial resources and cast doubt upon its ability to continue as a going concern, the issuer should formulate an action plan to address its funding needs, including its funding sources, and take concrete actions to implement its plan.
- **Historical information may not reflect issuers' current position.** While an issuer may have recently published historical financial information (e.g. results for the financial year/interim period ended December 2019), such information may not be indicative of the issuer's current year performance in view of the rapidly changing operating environment. Where management have concluded that there will likely be material changes to an issuer's operational performance and financial position, it should update the market and keep investors apprised of its current position.

- **Disclose principal risks and uncertainties that arise from the Covid-19 pandemic.** The Listing Rules require an issuer to include in its annual/interim report a business review describing the principal risks and uncertainties facing the issuer, important events occurred during and since the end of the financial year and an indication of likely future business developments. We recommend an issuer should make clear disclosure about the risks and uncertainties arising from the pandemic, an assessment on its impact to their business and financial performance, and measures to manage the risks.
- **Continuously assess and update investors of material developments.** The challenges caused by the Covid-19 pandemic are evolving and its future effects on the operating environment are highly uncertain. Issuers should continuously monitor their own circumstances and update investors as more information comes to light, especially when it adopts new measures in response to the pandemic or when it is in a better position to assess and/or quantify the impact of measures taken and recent development.





Maintenance of a fair, orderly and informed market

Issuers should be mindful of recent market volatility and changes in the market's sentiments in light of the pandemic. Some corporate activities in the course of issuers' normal business activities could, in light of recent developments, be perceived by investors as material and move a share price significantly. The Exchange monitors unusual share price and volume movements and media reports in the interest of maintaining a fair and orderly market, and may require issuers to make announcements to keep the market informed.

- **Issuers should exercise caution in assessing the materiality of information in the context of current market sentiment and conditions.** Business developments that are part of an issuer's normal course of business might cause significant share price and volume movements under current market sentiment. The issuer should make an assessment of the materiality of the information under the current environment, and make a regulatory announcement where appropriate. For example, where a pharmaceutical company intends to release a press release on its latest products, it should consider whether the information is material and disseminate the information broadly by publishing an announcement on the HKEX website simultaneously.
- **Issuers should review their procedures to monitor news, market commentaries, and reports that may have a material effect on their share prices.** Where rumours circulate in the market and the Exchange is concerned about the possible development of a false market, an issuer may be required to make an immediate announcement, failing which it may require a suspension in the trading of its securities.

- **Robust disclosures and business updates can mitigate speculative market commentaries that are based on inaccurate assumptions.** For example, if the media has reported significant estimated losses, purportedly based on limited information disclosed by an issuer regarding its recent store closures, further disclosure of cost containment measures, financial resources and liquidity position may help avert market speculations.
- **Some issuers have announced new business opportunities or initiatives arising from the current environment.** For example, some issuers have announced plans to manufacture protective gear or to develop/distribute health supplements. Issuers making such disclosures should make sure that the information is presented in a clear and balanced manner, and present factual information which is relevant for investors to make an informed assessment of the proposal, including its materiality to the issuer, the impact on its financial resources and profitability. Issuers should avoid using vague and ambiguous wording which may mislead investors, or to announce information that is of a promotional nature or which may invite market speculations.

Where issuers have announced a new business initiative, they should provide updates in their future interim and annual reports in order to keep investors abreast of its latest developments.



Publication of preliminary financial results and annual reports for issuers with post-December 2019 financial year ends

Timing relief for publications

In February and March 2020, the Exchange and the SFC issued two joint statements and FAQs to provide timing relief to approximately 1,800 issuers with a financial year ended 31 December 2019 relating to the publishing of preliminary results and audited financial statements.

There are approximately 470 issuers with financial year-ends on or before March 31 in 2020. The Exchange is closely monitoring the development of the Covid-19 pandemic and where necessary, will provide similar relief to these issuers and grant extensions based on the particular circumstances of these issuers. Issuers who foresee difficulties in meeting the financial reporting deadlines under the Rules are encouraged to consult the Exchange at the earliest instance.

Impact of Covid-19 and accounting standards

Issuers preparing their financial statements should now be considering, with their audit committee and auditors, how the impact of Covid-19 may affect their financial results and key balances in the statement of financial position. The impact to issuers may differ depending on their own facts and circumstances. In this connection, issuers are reminded of their obligations to comply with the relevant accounting standards and apply those standards relevant to their particular situations, including the following non-exhaustive areas:

- (a) Impairment assessment on financial assets and non-financial assets (including goodwill, intangible assets and property, plant and equipment)
- (b) Fair value measurement for financial instruments, including but not limited to unlisted investments and illiquid investments, and investment properties in the context of HKFRS 13 “Fair Value Measurement”
- (c) Going concern and capital management
- (d) Lease contract modifications (e.g. rent concessions or early lease termination)

- (e) Subsequent events
- (f) Disclosure of critical judgements and estimates.

For example:

HKFRS 9 – Accounting for expected credit losses (ECL) in the light of current uncertainty

HKFRS 9 “Financial Instruments” sets out a framework for determining the amount of ECL that should be recognised. HKFRS 9 provides a principles-based framework for applying professional judgment in evaluating forward-looking scenarios when determining ECL. However, HKFRS 9 does not set bright lines and it requires the exercise of judgement in light of the ever-changing circumstances.

HKFRS 9 paragraph 5.5.17 requires that the measurement of ECL should be based on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. Issuers should exercise judgement and their best efforts to consider all reasonable and supportable information available about past events, current conditions and forecasts of future economic conditions.



Accordingly, issuers are encouraged to update their models and estimates to reflect the revised economic outlooks, perform sensitivity analyses based on the new forecasts, adjust probability weighting on alternative scenarios, consider qualitative adjustments, and/or provide additional disclosures.

HKFRS 7 – Disclosure of judgements and estimates for financial instruments

HKFRS 7 “Financial Instruments: Disclosures” requires extensive credit risk disclosures. Given the level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used and judgements made in determining ECL is critical. HKFRS 7 paragraph 35G requires the issuers to explain the inputs, assumptions and estimation techniques used to apply HKFRS 9 section 5.5 requirements in relation to the recognition of ECL, in particular, they should disclose how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information.

Issuers are recommended to consider making relevant disclosures in their financial statements to provide transparency to investors. These disclosures should be specific and issuers should avoid generic boilerplate text.

Issuers should read the full Hong Kong Financial Reporting Standards and International Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standards Board (IASB) respectively to fully understand the implications. Below are some recent guidance issued by the IASB:

- IFRS 9 and Covid-19 (27 March 2020):
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-9/ifrs-9-ecl-and-coronavirus.pdf>
- IFRS 16 and Covid-19 (10 April 2020):
<https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf>

Holding of annual general meetings

In light of the recently introduced regulation by the HKSAR Government to restrict group gatherings to promote social distancing in the Covid-19 pandemic, issuers who are planning to hold their annual general meetings in the coming months may refer to the joint statement issued by the Exchange and SFC on 1 April 2020 and the related FAQs for guidance on the timing and arrangements for the meeting and communication with shareholders on the relevant arrangements.