



## Welcome to our monthly bulletin of what's happening within the regulatory environment that impacts the share registration and employee share plans space.



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With classrooms and offices re-opening, it feels like some normality is returning. During the past six months, we have discovered new ways of working, not least, how to run effective meetings virtually.

Over the next couple of months, we have some great virtual events lined up for you, including our annual AGM Discussion Forum, looking back at what we have experienced during a challenging 2020 season and our Equivalence Forum, providing the latest governance updates. It's also the time of year for EQ to hold our flagship conferences for both share registration and employee share plans. This year, we will be combining the events and hosting a virtual conference week, where there will be a number of insightful sessions available to sign up to, more information to follow about this shortly.

In this month's bulletin, the FRC examines the effects COVID-19 has had on financial reporting, and the European Commission proposes a simpler prospectus regime to aid capital raising.

As always if you have any questions on the content of this month's bulletin, please contact your Relationship Manager.

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## DATES FOR YOUR DIARY:

### Thursday 10 September – Equivalence Forum Webinar

Join EQ and other like-minded professionals, to gain knowledge and share experiences.

In this webinar, chaired by Simon Maynard, Assistant Director at Prism Cosec, we discuss the latest Corporate Governance updates and how you can plan, run and benefit from an ESG-focused investor meeting as part of your stakeholder management.

If you would like to attend this webinar, [please register here](#)

### Tuesday 29 September – AGM Discussion Forum Webinar

Hosted by Lisa Graham, Head of Meeting Management, together with Prism Cosec, Boudicca and Korn Ferry, EQ's AGM Discussion Forum looks over the challenging 2020 AGM season.

If you would like to attend this webinar, [please register here](#)

### Monday 12 to Friday 16 October – EQ Conference

We're delighted to announce the launch of our first-ever virtual conference – EQ Conference.

Join us for a week of great insight from across the share registration and share plans industry. Hear from industry experts, network with peers and share your expertise.

Further details, including the agenda and how to register for the various sessions, will be available shortly.



# COVID-19 Pandemic – Relaxation of Regulations and Guidance to assist Companies

## FRC reviews the effects of COVID-19 on financial reporting

The Financial Reporting Council (FRC) has published its first thematic review since the start of the pandemic examining the effects of COVID-19 on financial reporting. The review found that in most cases, companies had included enough information to enable investors to assess the impact of COVID-19 on their businesses. Key areas of reporting that could be improved include:

- Going concern disclosures in interim and annual financial statements need to clearly explain key assumptions and judgements that have been taken to determine whether a company is able to operate as a going concern.
- The assumptions used in determining whether the company is a going concern should be compatible with assumptions used in other areas of the financial statements.
- Sensitivity analysis or a range of possible outcomes should be provided for areas subject to significant uncertainty.

- The FRC discourage arbitrary splitting of items such as impairment charges between COVID-19 and non-COVID-19 financial statement captions. Companies should apply consistent existing accounting policies for exceptional items related to COVID-19 income and expenditure.
- Interim financial statements would benefit from more detailed disclosures explaining how COVID-19 has impacted a company's reported performance and future prospects.

The FRC also encourages disclosures not explicitly required by accounting standards to enable investors to understand the impact of COVID-19 on financial performance as required by IAS 1 'Presentation of Financial Statements'. The best disclosures reviewed were those specific to the company, which provided such additional information and explained how COVID-19 may affect future prospects.

The FRC's review includes examples of best practice disclosures including those from Britvic plc, Marks and Spencer, Burberry, Tate & Lyle, Land Securities, Vodafone, BT Group, Wizz Air and Airtel Africa.

[FRC's Review](#)

## Introduction of the European Single Electronic Format for financial reports to be delayed

The Financial Conduct Authority (FCA) has opened a consultation on postponing the requirement for listed companies to comply with the European Single Electronic Format (ESEF) introduced by the Transparency Directive. Specifically, the requirements to publish their annual financial reports in XHTML web browser format and to tag basic financial information will be postponed for one year. This would mean that it applies to financial years beginning on or after 1 January 2021 for publication from 1 January 2022. Also, the requirement to tag notes to the financial statements would be pushed back to financial years starting on or after 1 January 2023, for publication from 1 January 2024. The postponements are proposed due to potential difficulties caused by COVID-19.

Companies may voluntarily publish their accounts in the new European Single Electronic Format if they wish to do so.

The consultation closed on 28 August 2020.

[FCA's consultation](#)

## Companies House to resume compulsory strike off process

Companies House has announced that the compulsory strike off process for companies that are believed to no longer be operating, will resume from 10 October 2020. The process had been halted earlier in the year due to the COVID-19 crisis.

[Companies House Announcement](#)

## Financial Conduct Authority reminds audit firms of their reporting duties

The Financial Conduct Authority (FCA) has written to audit firms reminding them of their reporting duties to the FCA, particularly during the current COVID-19 crisis. The duty to report to the FCA covers, for example, whether the company can continue as a going concern. The FCA state that auditors are expected to raise such issues proactively and without delay. The letter also reminds audit firms that companies must continue to comply with the Market Abuse Regulation on disclosure of inside information and the FCA rules.

[FCA's Letter to Audit Firms](#)

## European Commission proposes a simpler prospectus regime to aid capital raising

The European Commission (EC) has proposed changes to the Prospectus Regulation as part of its Capital Market Recovery programme to help companies with capital raising during the COVID-19 crisis. Companies that have been listed for at least 18 months on regulated or SME markets, will be able to opt to use an EU Recovery Prospectus to issue shares.

This is a single document of 30 pages that focuses on essential information that investors need to make investment decisions. The proposal will now go to the European Parliament and Council of the EU for consideration.

[European Commission proposed changes to the Prospectus Regulation](#)

## Other matters

### **FRC publishes its Annual Enforcement Review**

The Financial Reporting Council (FRC) has published its Annual Enforcement Review, which reports on the FRC's investigations into company audits. The FRC states that there has been a 90 per cent increase in enforcement cases to 88. Of these, 31 cases were resolved by constructive engagement. The FRC reported that the vast majority of enforcement cases involved a failure to obtain sufficient and appropriate audit evidence and a failure of the audit firm to exercise professional scepticism when assessing the decisions and judgements made by management. The report highlights the FRC's focus on resolving cases through constructive engagement and non-financial sanctions as being more effective in improving audit quality. However, the FRC makes it clear that these measures do not replace financial sanctions where these are appropriate.

[FRC's Annual Enforcement Review](#)

### **FRC's annual report and transformation into the Audit, Reporting and Governance Authority**

The Financial Reporting Council (FRC) has published its annual report for 2019/2020. Amongst other things, the annual report sets out details of the ongoing work to transform the FRC into the Audit, Reporting and Governance Authority together with information on work of the FRC's new Regulatory Standards and Supervision Divisions, its enforcement cases and the FRC's strategic priorities.

[FRC's Annual Report](#)

### **Financial Reporting Lab's second 2020 newsletter is published**

The Financial Reporting Lab (the Lab) has published its second 2020 newsletter. This issue contains updates on the Lab's COVID-19 reports and reporting in times of uncertainty, its project on video, virtual and augmented reality and its review of climate change reporting.

[Financial Reporting Lab's newsletter](#)

### **The Court of Appeal makes Judgment on access to Register of Members**

The Court of Appeal has upheld a decision by the High Court that a member's request to have access to the register of members to contact shareholders with the intention of proposing a resolution to replace the directors and managing agents was a proper purpose. The company concerned was a leaseholder-owned property management company. The court found that corporate governance and leasehold issues cannot be separated artificially.

This case confirms the position built up by case law on the access to register of members that a member seeking to communicate with other members in order to challenge the way the company is being run should normally be regarded as having a proper purpose.

[Court of Appeal Judgment](#)

### **ICSA updated Guidance on Directors' general duties**

ICSA has published an updated guidance note on directors' duties, including a section on the requirements for all large companies to publish a section 172 statement, both on their website and in their Annual Report. This statement must describe how the directors have had regard to the factors set out in section 172 (1)(a) to (f), when performing their duty under section 172. The statement will need to be included within the strategic report, but a statement on the factors under section 172 (1)(b) relating to employee engagement and section 172 (1)(c) regarding business relationships, will need to be included in the directors' report, or cross-referenced to the statement in the strategic report.

The paper provides practical and useful guidance to the creation of the required statement.

[ICSA guidance note](#)