In Balance 2020 - The effects of Covid-19

Thematic review of the disclosure of the effects of Covid-19 in 2020 semi-annual reporting

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The Dutch Authority for the Financial Markets

The AFM is committed to promoting fair and transparent financial markets.

As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

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1. Management summary

The outbreak and spread of COVID-19 has had serious consequences for the business models of many listed companies, both now and going forward. Their financial positions, financial performance and cash flows have been affected. It is important for investors and other stakeholders that listed companies include relevant reporting of all the effects of COVID-19 in their financial reporting. This relates to companies that experience positive effects as well as to companies that experience negative effects. This concerns not only the financial effects, but also non-financial aspects related to these developments, such as the outlook for employees and the company's business model. It is also important that companies report clearly on the measures they are taking to mitigate the negative effects of COVID-19.

The disclosures vary substantially in quality and certain elements require significant improvement in the 2020 annual financial reporting

For many companies, the semi-annual financial reporting for 2020 (hereinafter, the 2020 semi-annual reporting) is the first reporting in which the effects of COVID-19 are visible. We have accordingly reviewed the 2020 semi-annual reporting of 26 listed companies that would be expected to experience negative effects from COVID-19. The aim of the review was to assess the quality of disclosures of the effects of COVID-19 and identify potential aspects that could be improved. Nearly all the companies reviewed discuss the effects of COVID-19 in their 2020 semi-annual reporting. These disclosures vary substantially in quality and certain elements require significant improvement in the 2020 annual financial reporting (hereinafter, the 2020 annual reporting).

In this context, we wish to note that the disclosure requirements for annual reporting are broader than those applying to semi-annual reporting. We also wish to stress that in the management report in the annual reporting and in the remuneration report non-financial information such as social and human resources matters must also be reported.

The leading group provides a good disclosure on several elements, and should continue this in the 2020 annual reporting

Around a quarter of the companies provide good and informative disclosures on several relevant elements. These companies have included a detailed disclosure of financial covenants, sensitivity analyses and scenarios in addition to a qualitative and a qualitative disclosure of their assumptions and starting points. They also devote attention to consistency between the semi-annual management report and the semi-annual financial statements. The AFM urges this leading group to continue to provide disclosures of comparably high quality in their 2020 annual reporting.

Most companies provide good disclosures on some elements, but need to improve this in their 2020 annual reporting

Around half of the companies reviewed provide good disclosure on some relevant elements, but not all. For example, in some cases the disclosure of the test to determine whether the recoverable value of assets is above or below their carrying amount is not sufficient to be able to understand the outcome. We also note that not all companies that could be expected to provide a sensitivity analysis for this test actually do so.

The AFM calls on companies to include adequate and comprehensible disclosure of their assumptions and starting points for items such as deferred tax assets, provisions for credit losses and impairment tests in their 2020 annual reporting. When relevant, it is also desirable for a company to provide a sensitivity analysis.

A quarter of the companies outline the measures they are taking to limit the negative effects of COVID-19 in their management reports, without these being visible in the semi-annual financial statements. In cases where this is due to materiality considerations, we call on companies to mention this in their management reports. This will present a more consistent and balanced picture.

In all cases, the AFM expects companies to disclose their treatment of material items. To assess the effects of measures and to be able to compare them with 2019, it is necessary to understand how new items such as government support and rent reductions are recognised.

A smaller group of companies provides hardly any disclosure, and needs to do significantly better in their 2020 annual reporting

Finally, nearly one third of the companies reviewed provide hardly any disclosure in their 2020 semi-annual reporting. The AFM calls on this group to provide proper disclosure of the effects of COVID-19 in their 2020 annual reporting. This is, after all, a responsibility of these companies' management.

External auditor involved on one more occasion in 2020 than in 2019 and COVID-19 is mentioned in nine review reports

For all the 98 companies filing their 2020 semi-annual reports with the AFM by 1 October 2020, we looked at the extent to which this reporting was accompanied by a review report from an external auditor. The 2020 semi-annual reports of 23 of these 98 companies were accompanied by a review report from an external auditor (2019: 22 companies). In nine of these 23 review reports, the external auditor saw reason to include an emphasis of matter paragraph associated with uncertainties relating to COVID-19.

Good practices

The AFM urges companies to use care in the preparation of their disclosures of the effects of COVID-19 in their 2020 annual reporting and ensure that these are comprehensible. A number of good practices are described in section 5.

2. The AFM has conducted an exploratory review of 2020 semi-annual reporting

COVID-19 has significantly affected our society. The measures taken by the government to restrict the spread of COVID-19 as much as possible have severe consequences, certainly for the financial markets as well. For many listed companies, COVID-19 could have a significant impact on their business operations and therefore also on their current and future business model. This is shown in the financial reporting. Transparent and comprehensible disclosures contribute to more complete information being provided to investors and other stakeholders. This is necessary for the capital markets to function fairly and efficiently.

The effects of the outbreak and spread of COVID-19 at many listed companies will become visible to investors for the first time in the 2020 semi-annual reporting. The AFM has published a newsletter on its website[1] stressing the importance of transparency. This states that listed companies must be clear and specific with regard to the current and expected effects of COVID-19 on their financial position, performance and cash flows. The AFM also expects companies to report clearly on the measures they are taking to mitigate negative effects. The AFM thus endorses the expectations published by ESMA in a statement on 20 May 2020[2].

In 2020, we reviewed the 2020 semi-annual financial reporting[3] (the 2020 semi-annual reports) of 26 listed companies. This review focused on companies that we expected to experience negative effects as a result of the outbreak and spread of COVID-19. We have established the extent to which these companies provided both qualitative and quantitative disclosures of the effects of COVID-19.

In this context, we refer also to ESMA's European Common Enforcement Priorities with items of attention for the 2020 annual reporting, in which the expectations of ESMA in relation to the effects of the COVID-19 crisis are featured[4]. The importance of transparency from companies regarding the impact of the coronavirus crisis on non-financial matters, social and human resources issues, the business model and value creation and the risks associated with climate change is also stressed.

We will make direct contact with companies before the publication of their 2020 annual reporting in cases where our findings give reason to do so.

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[1] https://www.afm.nl/nl-nl/professionals/nieuws/2020/mei/gevolgen-corona-halfjaarlijkse-financiele-verslaggeving

[2] Implications of the COVID-19 outbreak on the half-yearly financial reports: https://www.esma.europa.eu/document/implications-covid-19-outbreak-half-yearly-financial-reports

[3] Under Section 5:25d (2) Wft, the semi-annual financial reporting must include: the semi-annual financial statements, the semi-annual management report and (briefly) statements from the persons designated as responsible at the issuer with respect to the reliability of the above-mentioned elements.

[4] https://www.afm.nl/nl-nl/professionals/nieuws/2020/okt/aandachtspunten-jaarverslaggeving-2020-esma

Section 3 of this report presents an overview of our findings and observations regarding the disclosures, effects, measures and publication dates. Our findings and observations with respect to the involvement of the external auditor in the 2020 semi-annual reports are stated in section 4. Section 5 then lists some practical examples[5] that could assist companies in the preparation of their 2020 annual reporting. The objectives, design and selection of the review are stated in appendix 1. Appendix 2 contains an overview of relevant newsletters from the AFM regarding COVID-19 in financial reporting and the auditing thereof. Appendix 3 contains a list of abbreviations.

[5] The AFM hopes that companies will be inspired by the good practices described in this report to make further improvements. These good practices should not be seen as a standard or as the only correct formulation. Other formulations are of course also possible within the bounds of legislation and regulation.

3. The disclosures vary substantially in quality and certain elements require significant improvement in the 2020 annual financial reporting

The 2020 semi-annual reports are the first occasion on which listed companies have to disclose the effects of the outbreak and spread of COVID-19 in their reporting. This thematic review focused on the disclosures relating to COVID-19 in the 2020 semi-annual reports of 26 selected listed companies. In our review, we assessed the extent to which companies provided transparent and comprehensible disclosures. Section 3.1 states our impression of these disclosures.

Our observations with respect to the stated effects are given in section 3.2. It is important that companies also provide transparent and comprehensible disclosure of their measures aimed at limiting the negative consequences. Section 3.3 looks at the measures stated by the companies.

Section 3.4 concludes with our observations regarding the publication dates of the 2020 semi-annual reports. We assembled information on a larger group of companies, which enabled us to analyse whether the 2020 semi-annual reports were published on different dates than the dates of the semi-annual reports in 2019.

3.1 Most companies need to improve their disclosure of certain elements

Almost all the listed companies reviewed discuss the effects of COVID-19 in their 2020 semi-annual reports. The quality of these disclosures varies widely. A small group of companies provide detailed disclosure with regard to several relevant elements. Most companies provide good disclosure of some, but not all relevant elements. Then there is another small group that provides hardly any disclosure at all.

The leading group provides a good disclosure on several elements, and should continue this in the 2020 annual reporting

Around a quarter of the companies reviewed provide informative disclosure on several relevant elements. For this group, we see:

- a detailed disclosure regarding the going concern assumption;
- a qualitative and quantitative disclosure of assumptions and starting points used in the valuation of items in the statement of financial position (deferred tax assets, non-current assets and provision for credit losses), including a disclosure of the scenarios used;
- sensitivity analyses with respect to tests of the recoverable value of assets, provisions for credit losses, financial covenants and the fair value of assets;
- a disclosure of the financial covenants; and/or

- a disclosure of the treatment (including the accounting policy) of new items such as government support and rent discounts.

In addition, we see consistency between the semi-annual management report and the semi-annual financial statements for these companies. The AFM urges this leading group to continue to provide disclosures of comparably high quality in their 2020 annual reporting.

Most companies provide good disclosures on some elements, but need to improve this in their 2020 annual reporting

Approximately half of the companies provide detailed and extensive disclosure of some elements, but fail to do this for others. It is good that companies state the effects of COVID-19, but it is at least as important that these statements can be understood by investors and other stakeholders. Good disclosure of all relevant elements is essential for this. This kind of disclosure is not provided for all relevant elements. We will contact these companies and their managements in 2020 to point out the areas in which they need to improve.

A good disclosure of the assumptions and starting points used and the scenarios used (if applicable) helps a user of the financial reporting to understand the result of a test to verify if the recoverable value of an asset is below its carrying amount. In our review, we noted that the disclosure by six companies of the test to verify if the recoverable value of assets is below the carrying amount was not sufficient to be able to understand why the result of this test did or did not lead to recognition of an impairment.

In addition, we saw that nine companies that carried out an interim test of the recoverable value of goodwill and/or other intangible assets with unlimited useful life failed to include a sensitivity analysis in their disclosures. An interim test suggests that there were indications of a potential impairment. Clearly there are scenarios in which this could lead to a loss. Furthermore, given the increased uncertainty, changes to key assumptions are more likely to be reasonably possible. This means that a sensitivity analysis[6] is more likely to be required.

We would further note that a sensitivity analysis is also appropriate in situations in which an impairment of goodwill and/or intangible assets with unlimited useful life is recognised [7]. The recognition of a loss means that there is no longer any margin in the valuation of the cash-generating entity that can compensate for any setback in the assumptions used. The inclusion of a sensitivity analysis provides greater clarity regarding the valuation of other assets (and any remaining items of goodwill and/or intangible assets) at the cash-generating entity concerned.

Lastly, we note that seven companies failed to include a disclosure regarding their deferred tax assets. The inclusion of a disclosure of assumptions and starting points also adds value for this item.

[6] As referred to IAS 36 paragraph 134(f).

[7] We refer in this respect to the requirements of IAS 1 paragraphs 125 and 129.

The AFM accordingly calls on companies to include adequate and comprehensible disclosure of their assumptions and starting points for items such as deferred tax assets, impairment tests and provisions for credit losses in their 2020 annual reporting. Provision by companies of a sensitivity analysis is desirable, where this is relevant.

For nine companies in the review, we found statements of the measures they are taking to limit the negative effects of COVID-19 in their semi-annual management reports, but we do not see the effects of these measures in their semi-annual financial statements. Our review also shows that five companies failed to disclose their treatment of support they received from the government. Two companies failed to disclose their treatment of rent discounts. We had also expected the banks to include a disclosure of their treatment of the adjusted TLTRO III scheme that would explain whether this scheme had been treated as a government subsidy (IAS 20) or on the basis of IFRS 9. These items did not exist in the 2019 financial statements. Investors and other stakeholders need to be able to understand the treatment (and accounting policy) for these items in order to assess the effects of the measures taken. The AFM accordingly expects companies to disclose their treatment of material items in their 2020 financial statements.

Items may also not be stated in the semi-annual financial statements for reasons of materiality. Where this is the case, we call on companies to state this in their management report. This will present a more consistent and balanced picture.

Good practices

We have identified a number of good practices that we have listed in section 5. These good practices refer only to the method of disclosure in the 2020 semi-annual reporting; disclosures in the 2020 annual reporting will have to be more detailed, as the requirements for semi-annual reporting are less strict than those for annual reporting. The good practices therefore do not necessarily offer a framework for adequate disclosure in the 2020 annual reporting.

A smaller group of companies provides hardly any disclosure, and needs to do significantly better in their 2020 annual reporting

Nearly one-third of the companies reviewed restricted themselves to a rudimentary disclosure. These disclosures therefore offered only limited information value. The AFM calls on these companies to include transparent and comprehensible disclosures relating to COVID-19 in their 2020 annual reporting. We will contact these companies and their managements in 2020 to remind them of their responsibilities. In 2021, we will follow-up on this as part of our regular oversight process.

3.2 The effects of COVID-19 are serious

Most of the companies reviewed were, in various ways, affected by the government measures taken to limit the spread of COVID-19 as much as possible. This is illustrated by the fact that 15 of the 26 companies reviewed filed a press release with the AFM[8] in which they stated that they were unable to offer any guidance with respect to their financial performance in 2020 or that they were withdrawing guidance they had previously issued.

23 companies reported a decline in revenue in the first six months of 2020 compared to the first six months of 2019. The picture in terms of sectors is varied. Our review shows that the effect on revenue is closely linked to the type of customers concerned. There is also large regional diversity. Lockdowns were not imposed at the same time in all countries and were also not of uniform strictness. In one country, shops and factories were closed for weeks on end, while in another continued operations were possible with certain adjustments.

Besides a decline in revenue, we see that listed companies have been affected in relation to the valuation of their assets. In the 2020 semi-annual reporting of the 26 companies reviewed, we found information on the following:

- 18 companies reported that there were indications of an impairment at 30 June 2020. They had made a formal estimate of the recoverable value of the asset in question to determine whether this recoverable value was below its carrying amount.
- This test led to 13 of the 18 companies recognising an impairment. For most companies, these impairments had a material effect on their result in the first half of 2020.
- Nine companies, including two banks, reported an increase in their provision for expected credit losses. The increase in this provision directly affected the results of these companies.
- Six companies, mainly in the real estate and financial sectors, saw a decline in the fair value of their assets. Losses resulting from a decline in the fair value of assets are recognised in the result for the period in which they occur.
- Three companies reported that they had problems meeting financial covenants at 30 June 2020.

Five companies failed to provide any information whatsoever regarding an actual or potential decline in the value of their assets.

Between mid-June and the end of July, 5 of the 26 companies reviewed saw reason to issue an update of elements in their financial position before the issue of their press release announcing their 2020 semi-annual figures. In these press releases, the companies presented information with respect to impairments, provisions, revenue or profitability. Only one of the companies reviewed had done this in 2019.

[8] Under Article 17 (1) of the Market Abuse Regulation (MAR), listed companies are obliged to publish price-sensitive information by means of (among other things) a press release.

3.3 Measures aimed at maintaining result, liquidity and finance

Our review showed that the companies had taken a whole range of measures to limit the effects of COVID-19 as much as possible. Many of these measures were aimed at maintaining the company's result, liquidity and finance. The most commonly applied measures are summarised in figure 1.

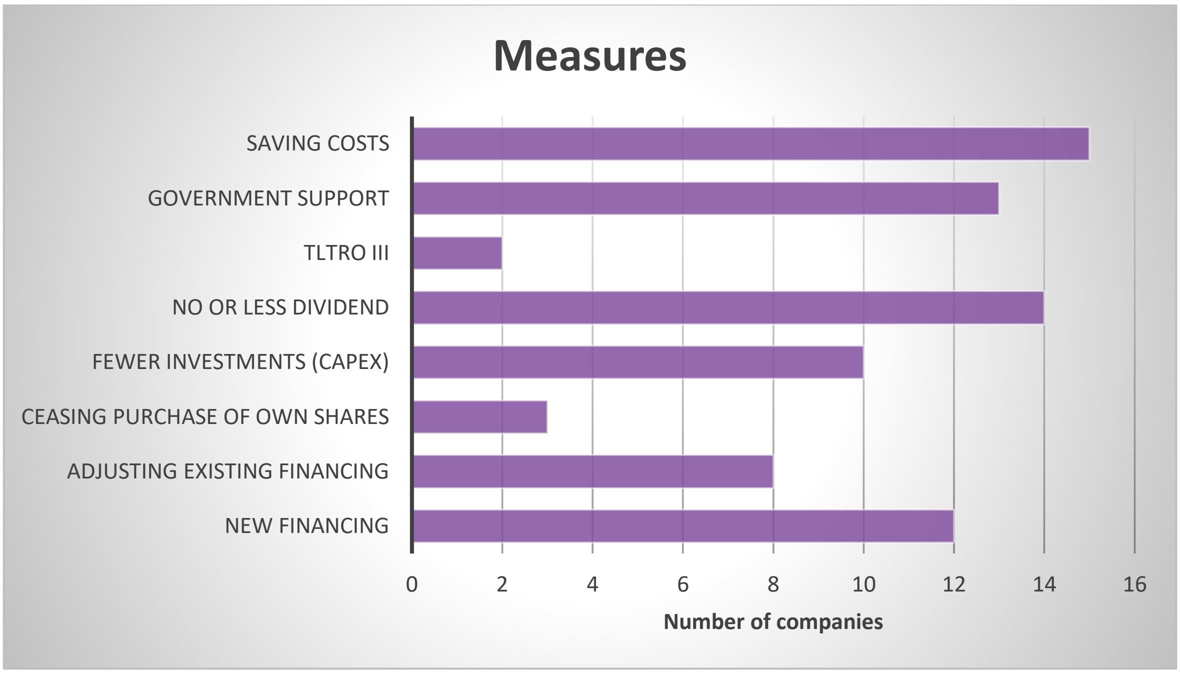

Figure 1: Number of companies reporting a measure

Some companies stated that they had (even further) focused their management on their working capital. All the companies stating they would reduce their investment in non-current assets also stated that they had taken measures to save costs. In most cases, this concerned general overheads or head office costs. We also saw that companies had received rent discounts for a certain period.

In its Focus Letter dated 12 October 2020[9], Eumedion states that it expects that modifications in the remuneration of management as a result of Covid-19[10] will be clearly reflected in the 2020 remuneration reports. Nine of the companies we reviewed stated in the first half of 2020 that they were intending to reduce directors' salaries. This was to be done, for instance, by setting the

[9] https://www.eumedion.nl/clientdata/215/media/clientimages/2021-Focus-Letter.pdf?v=201023095616

[10] In a newsletter of 13 October 20202, Eumedion states that directors should also 'feel the pain' of the current coronavirus crisis if their company was forced to apply for government support, dismiss employees or (sharply) reduce its dividend or cancel its dividend altogether. In these situations, Eumedion expects the supervisory board to reduce directors' base salaries, cancel the bonus for 2020 and/or not allocate any (conditional or otherwise) performance shares or options in 2021. For the newsletter see: https://www.eumedion.nl/actueel/nieuws/eumedion-richt-zich-in-avaseizoen-2021-op-klimaatrapportages-en-bestuurdersbeloningen.html

variable remuneration component, over which the supervisory board has discretionary authority, at nil. We did not receive any information from the other companies on this issue.

The support packages from the various governments vary widely. A decline in revenue is not necessary to qualify for government support in every country. In the Netherlands, the government has decided that companies applying for support due to COVID-19 may no longer distribute dividend, may not grant bonuses, may not repurchase their own shares and may not allocate generous severance payments to directors[11]. Slightly over half of the companies receiving government support are applying this dividend policy. The two banks in the review both refer to the adjusted TLTRO III scheme.

Three companies had difficulty with their financial covenants in the first half of 2020. A further five other companies renegotiated the conditions for their existing finance facilities in light of the current situation. The most commonly stated changes concern extensions to the term and an easing of the covenants.

Our review shows that companies were much less concerned with maintaining or restoring revenue. Five companies described what they were doing to retain clients. One company stated it intended to invest in the development of new products. Two real estate companies stated they were planning to change their business model. It appears that this concerns existing plans that have become more urgent as a result of the current situation.

The management report to the financial statements has to cover non-financial aspects as well. Therefore, in addition to expected or current developments with respect to financial aspects, attention has to be devoted to the workforce, the circumstances on which the development of revenue depends and activities associated with research and development[12]. We refer to our thematic review of non-financial information in management reports in 2017[13].

3.4 Published earlier in 2020

In May 2020, ESMA expressed its expectation that some listed companies may need more time to prepare their 2020 semi-annual reporting. To assess the effects of COVID-19 on publication dates, we assembled the publication dates of the 2019 and 2020 semi-annual reports, which enabled us to analyse whether the 2020 semi-annual reports were published on different dates than the

[11] Article 6a was added to the Temporary Emergency Bridging Measure for Sustained Employment NOW 1.0 on 1 May. The Minister introduced this in order to set additional conditions for applications for support on the basis of this article. One of these conditions is the restriction of the possibility to distribute dividend or profits or to allocate bonuses. By extension, the repayment of capital through share buy-backs is also restricted. The prohibition under Article 6a is also included in the NOW 2.0 scheme, and applies to all applicant legal entities within a group and to the group head.

[12] See Section 391 Title 9 Book 2 of the Dutch Civil Code.

[13] https://www.afm.nl/nl-nl/professionals/nieuws/2018/dec/onderzoek-nieuwe-verslaggevingsregels

dates of the semi-annual reports in 2019. We did this for the 98 companies[14] that had filed their semi-annual reports with the AFM by 1 October 2020. The 26 companies in the review are part of this larger group. Our observations are listed below.

Our review shows that on average, companies published their 2020 semi-annual reports a couple of days earlier. This applies to both the entire population and the 26 companies we selected. It should also be noted that there were significant outliers of more than 40 days in both directions (reporting earlier or later). The distribution of the number of companies publishing their 2020 semi-annual reporting earlier or later is shown in figure 2.

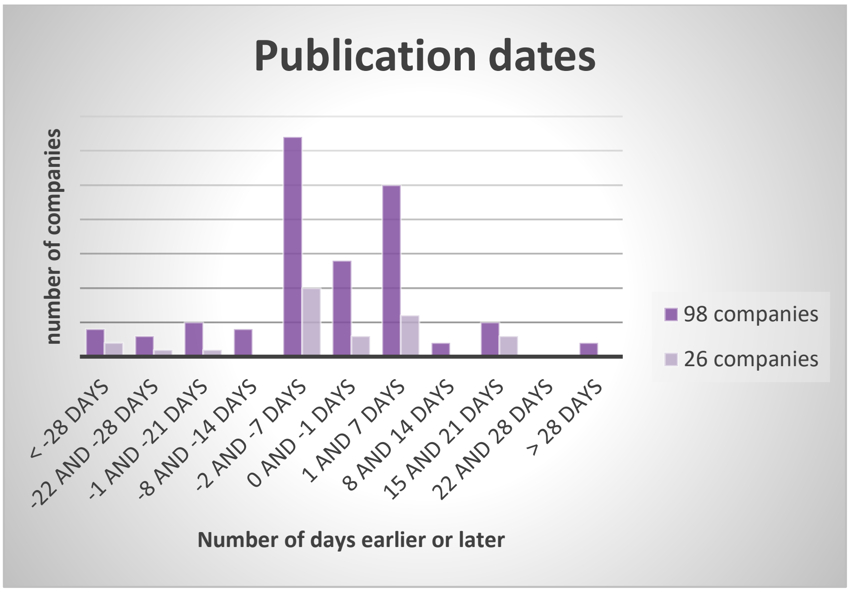

Figure 2: Distribution of publication dates in 2020 compared to 2019

[14] This concerns companies with a market listing in the Netherlands and a closing date of 31 December that prepare consolidated reporting in accordance with IFRS.

4. Involvement of the external auditor and mention of COVID-19 in the review report

By collecting information on a larger group of companies, we analysed whether the external auditor played a different role in the 2020 semi-annual report than was the case for the 2019 semi-annual report. For the 98 companies[15] filing their 2020 semi-annual reports with the AFM by 1 October 2020, we looked at the extent to which this reporting was accompanied by a review report from an external auditor. This was the case for 23 of the 98 companies. For these companies, we checked whether COVID-19 had affected the content of the review reports. Some of these 23 companies (eight in total) were also involved in the review of the disclosure relating to COVID-19 in the semi-annual financial reporting (see section 3). In nine of these 23 review reports, the external auditor saw reason to include an emphasis of matter paragraph associated with uncertainties relating to COVID-19.

4.1 External auditor more involved in 2020 than in 2019 on one occasion

In view of the uncertain financial and economic situation, listed companies could more frequently decide to have their semi-annual reports assessed by an external auditor. In an article published on 1 April 2020, the Dutch Association of Stockholders (the VEB)[16] stressed the importance of having semi-annual figures audited. The VEB raised this point again in an interview on 29 October 2020[17].

In the whole population of 98 companies, 23 companies included a review report from an external auditor in their 2020 semi-annual reports (2019: 22 companies). One company included a review report in its 2020 semi-annual report, while it had not done this when publishing its 2019 semi-annual report. The company in question is Van Lanschot Kempen N.V., which on page 2 of its semi-annual report states the following: “In view of this year’s extraordinary circumstances, we have asked our external auditors to issue a review report on our half-year figures – a statement which we received on 25 August 2020.”

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[15] This concerns companies with a market listing in the Netherlands and a closing date of 31 December that prepare consolidated reporting in accordance with IFRS.
[16] https://www.veb.net/artikel/07447/veb-pleit-voor-schrappen-variabele-beloning-en-extra-accountantscontrole
[17] https://www.accountancyvanmorgen.nl/2020/10/29/veb-maant-accountants-tot-scherpte-bij-komend-cijferseizoen/

4.2 COVID-19 is mentioned in nine review reports

All the conclusions to the 23 review reports attached to the semi-annual reports state that there were no material findings. In nine of these 23 review reports, in line with NBA Alert 42[18] the external auditor saw reason to include an emphasis of matter paragraph [19] associated with uncertainties relating to COVID-19. The nine review reports in which this paragraph appears are issued by two different Big 4 audit firms.

A breakdown of the 23 review reports by sector gives the following distribution:

Sector	COVID-19 paragraph present	No COVID-19 paragraph present
Banks	2	1
Investment funds	0	3
Construction	1	0
Financial services	1	3
Telecommunications	0	1
Real estate	4	1
Insurance	0	4
Other	1	1
Total	9	14

Table 1: Distribution by sector of COVID-19 paragraph present or not present in review report

In two of the nine review reports containing a paragraph dealing with the uncertainties in relation to COVID-19, the external auditor saw reason to stress the impact of COVID-19 in relation to the going concern assumption. The external auditors also included an emphasis of matter paragraph on various other issues relating to COVID-19 in their review reports. This is shown in figure 3.

[18] See NBA Alert 42 impact coronavirus update 6 April 2020: https://www.nba.nl/wet-en-regelgeving/gedrags-en-beroepsregels/nba-alerts/

[19] NV COS 706.7a (Definition): Emphasis of matter paragraph - A paragraph in the auditor's report in which reference is made to a circumstance that is presented or disclosed appropriately in the financial statements and that, based on the assessment of the auditor, is of sufficient importance that it is fundamental to users' understanding of the financial statements.

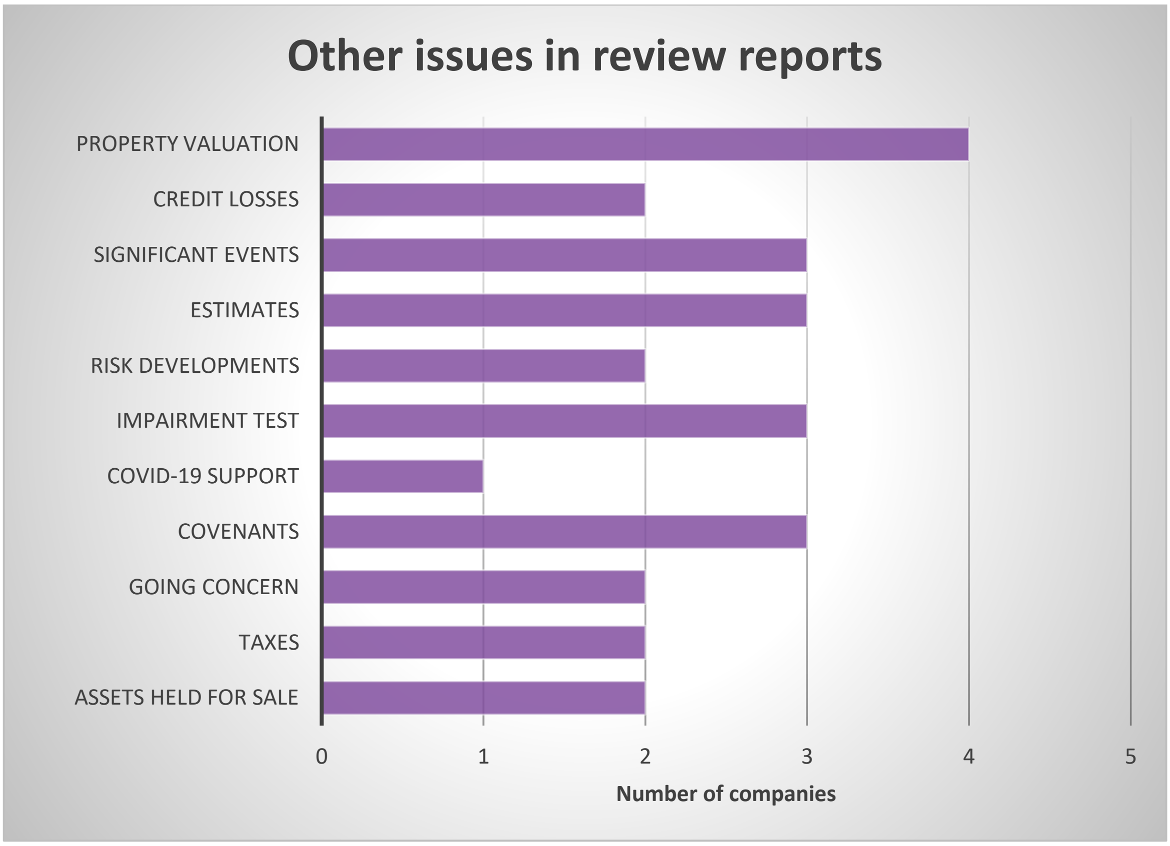

Figure 3: Other issues mentioned in review reports

5. Good practices[20]

We identified a number of good practices in the disclosures in our review. To help companies and their auditors in the preparation of future financial reporting, we have listed a number of these good practices with a brief explanation of why we consider the example in question to be useful. Other examples of good practices are also to be found, and the following list is not exhaustive.

The requirements for semi-annual reporting are less strict than for annual reporting. The good practices therefore do not necessarily offer a framework for adequate disclosure in the 2020 annual reporting. The AFM is open for discussion with listed companies regarding specific implementation issues resulting from IFRS. The AFM encourages companies to discuss cases with the AFM[21].

5.1 Sensitivity analysis

Users of financial reporting state that sensitivity analyses are important for their understanding of the risks that underlie the valuation of assets and liabilities[22]. A clear and detailed sensitivity analysis gives users insight into the factors involved in the determination of value. In our review, we saw disclosures to sensitivity analyses for the following items:

- impairment tests – nine companies
- provision for expected credit losses – three companies
- fair value of real estate investments – two companies
- financial covenants – four companies

One example of a good disclosure to a sensitivity analysis comes from Fugro N.V.

[20]The good practices mentioned in this report are examples intended to increase the quality and relevance of the disclosures. The good practices should not be seen as a standard or as the only correct substance of existing or future disclosures. Other content may be used to comply with legislation and regulation. The quotation of good practices in this report does not imply any statement by the AFM regarding the semi-annual financial reporting in question as a whole.
[21] This can be done via fin.verslaggeving@afm.nl
[22] This is stated for instance in IAS 19 BC 236: “Users of the financial statements have consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying the amounts recognised in the financial statements.”

Source: semi-annual financial reporting of Fugro N.V.

Note 15, page 27:

The goodwill sensitivity analysis as at 30 June 2020 is as follows:

		Change required in each key assumption for headroom to equal zero			
(x EUR million)	**Headroom**	**Growth rate first year**	**Growth rate long-term**	**Pre-tax discount rate**	**Long-term EBIT margin %**
Europe-Africa	40.0	(4.9%)	(1.4%)	1.2%	(1.4%)
Americas	49.3	(10.5%)	(2.5%)	2.0%	(2.2%)
Asia Pacific	56.6	(15.8%)	(5.9%)	4.5%	(3.3%)
Middle East & India	25.8	(9.7%)	(2.2%)	1.8%	(4.3%)
Total	171.7				

Total headroom decreased significantly from EUR 550 million as at 31 December to EUR 172 million as at 30 June 2020. The changes beyond those in the above table to assumptions used in the goodwill impairment test would, in isolation, lead to an impairment loss being recognised for the six months ended 30 June 2020.

Fugro states the amount by which the fair value exceeds the carrying amount and the amount of the change that would make recognition of an impairment necessary.

This disclosure is particularly important for companies whose market capitalisation is lower than their equity, since investors in such companies are already taking account of scenarios in which recognition of an impairment may be necessary. We note that disclosures such as sensitivity analyses are important means of communication from the company management to investors and other stakeholders.

5.2 Notes to extraordinary items

In their semi-annual management reports, many listed companies mention extraordinary items such as government support, including the adjusted TLTRO III and rent discounts received or granted. Given the extraordinary nature of these items, it is important that companies state the amount and treatment of these items in their semi-annual financial statements. A number of companies do this. A good example of this comes from Sligro Food Group N.V.

Source: semi-annual financial reporting of Sligro Food Group N.V. (translation from press release half-year report 2020 dated 23 July 2020 on the corporate website of Sligro Food Group N.V.)

Semi-annual management report page 1	Semi-annual financial statements page 15
We have protected our cash flow by means of a successful early intervention in our cost base, choosing our investments carefully, using government facilities and closely monitoring working capital. Even after the sharp decline in net sales, we were still able to achieve a positive EBITDA (even if adjusted for leases), however, our net profit was hit hard.	In the Netherlands, the Group used the first period of the NOW (NOW 1.0). Based on the fall in net sales expected in March, advances of €15 million were received. Based on the net sales actually realised, we expect to repay €2 million of this amount later this year. The NOW income of €13 million has been deducted from employee expenses. The Group has not yet submitted an application for the second NOW period. We are awaiting the net sales trend for the next month.
Sligro makes a connection between the semi-annual management report and the semi-annual financial statements and states: • the facility concerned, • the amount involved, and • how and in which item the government support is recognised.	

5.3 Disclosure of starting points in various scenarios

Determination of the value of the carrying amount of some assets and liabilities requires an estimate of the consequences of uncertain and future events affecting these assets and liabilities at the end of the reporting period. Nine companies state they used several scenarios for impairment tests or the determination of their provision for expected credit losses. On page 3 of its report, the jury for the FD Henri Sijthoff prize mentions the usefulness of working with scenarios[23]: "Shareholders and other readers of annual reports in any case have some insight into the potential consequences of unexpected events." Some companies give a detailed disclosure of the scenarios used. A good example in this respect is given by GrandVision N.V.

[23] https://fd.nl/ondernemen/1362783/shell-wint-sijthoff-prijs-voor-verslaggeving-in-rampjaar-oliesector

Source: semi-annual financial reporting of GrandVision N.V.

Pages 24 and 25

The recoverable amount for the value-in-use is calculated using the expected cash flow approach to reflect the uncertainties of the pandemic. This approach is based on five scenarios developed for this purpose, including two V-shaped rebounds with recovery of the business to the pre-pandemic level ('recovery point') in year 1 and year 2 (Scenarios A and B, respectively); U-shaped recovery in year 3 (Scenario C); and two L-shaped scenarios, in which the optical market in the country goes into longer recession and stays below the pre-pandemic trend (Scenario D and E). The probabilities of each scenario per CGU are in the table below.

CGU	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
United Kingdom & Ireland, Switzerland, Italy	5%	50%	25%	15%	5%
US	5%	30%	50%	10%	5%
Chile & Uruguay, Colombia, and Peru	5%	5%	25%	35%	30%

The discounted cash flow projections in each scenario of the value-in-use model cover a period of five years and include the effects of restructuring plans and benefits of the government assistance, as committed at the end of the reporting period. The EBITA and revenue growth rates in the remaining part of 2020 are based on latest ramp-up plans as approved by the management in June 2020. The revenue growth rate and EBITA after recovery point are based on the financial plans as approved by management at the end of 2019 with a respective postponement of the Group strategy and adjusted for the COVID-19 impact as follows: (a) all the scenarios include costs for the COVID-19 preventive measures in the stores at 0.85 % of sales in year 1; (b) for the L-shaped scenarios potential negative impact of a change in the future customer behaviour and preferences, as well as additional COVID-19 related costs are added to the projections of the U-shaped scenario. Cash flows beyond the five-year period were extrapolated using an estimated growth rate of nil. The discount rates used are pre-tax and reflect the country-specific risks relating to the optical retail industry. The assumptions below reflect the ranges for all the scenarios per relevant CGU (value-in-use).

GrandVision not only states that scenarios have been used, it also explains which were used in detail.

Stating assumptions and starting points helps users of financial reporting to gain insight into the opinion of the company management regarding the future or other sources of estimation uncertainty.

5.4 The going concern assumption and financial covenants

Half of the companies reviewed state explicitly in their semi-annual financial statements that their preparation is based on the assumption that the entity's continuity is assured. Ten companies also provide a disclosure on this. In addition, almost half of the companies reviewed provide a disclosure on their financial covenants. For eight companies, this overlaps with the disclosure of the going concern assumption. One example of a good disclosure on financial covenants comes from NSI N.V.

Source: semi-annual financial reporting of NSI N.V.

Pages 11, 16, 21 and 24 respectively

Leverage and hedging

The LTV is 29.2% at June 2020, up 1.8 percentage point compared to December 2019 (27.4%). This is primarily explained by the decline in asset values over the period. The LTV still stands well below our 60% covenant. As a result of lower financing costs the ICR increased to 7.1x at the end of June, well above the 2.0x covenant.

Covenants

	Covenant	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Jun. 20
LTV	≤ 60.0%	44.1%	36.9%	36.9%	27.4%	29.2%
ICR	≥ 2.0x	3.8x	4.7x	5.5x	6.8x	7.1x

Liquidity

NSI has drawn up a liquidity forecast and performed stress tests for loan-to-value, solvency and debt covenants. Based on the assumptions currently used in forecasting, which includes already foreseen consequences of the COVID-19 outbreak, no additional financing will be required in 2020 and 2021. Also loan-to-value, solvency and ICR will remain well within the covenants.

Further information on the outcome of the stress tests can be found under note 7 and 11. Based on the outcome, the Management of the company concludes that it is not expected that the COVID-19 outbreak will affect the company's ability to continue as a going concern.

One of the possible risks as a consequence of the recent economic turbulence could be a fall in rental income due to, for example tenants with liquidity problems, a below average number of lease renewals or bankruptcies. Yields might also move more than the above mentioned 100 bps, if volatility in other capital markets further affects real estate. For this reason a further sensitivity (on an individual property level) is executed, showing a combination of a yield shift of +200 basis points and a 20% fall of total annual contracted rent. In such case the value of investment property would decrease by 40%, the overall implied yield would be 10.9% and the loan-to-value would increase from 29.2% to 47.6%. In this scenario, there would still be room for € 150m in additional future capex for development projects. The LTV will in this case increase to ca. 58%, still below the LTV debt covenant of 60%.

The above 'further sensitivity' analysis is provided for completion purposes only and at present is not deemed a likely scenario by NSI.

The interest coverage ratio amounted to 7.1x as at 30 June 2020 (31 December 2019: 6.8x).

Based on our ICR debt covenant of 2,0x, NSI could absorb a net rental income decline of ca.70% before breaching this covenant.

NSI provides a disclosure on:

- the financial covenants it has to meet,
- how it was in compliance with these on 30 June 2020,
- a sensitivity analysis, and
- the going concern assumption.

5.5 Non-financial institutions also provide information on an increase in the provision for expected credit losses

Companies have reassessed their provisions for expected credit losses due to the developments in relation to COVID-19. The companies in the review that are active in the financial sector provide detailed disclosures of the change in this provision. There were also a further eight companies from other sectors that included a disclosure on the change in this provision. A good example of this comes from Heineken N.V.

Source: semi-annual financial reporting of Heineken N.V.

Note 10(b) pages 32 and 3	
During the first half year of 2020 Heineken recognized €137 million (2019: €44 million) of credit losses mainly driven by receivables from customers and loans and advances to customers. Heineken recognizes allowance for expected credit losses (ECL) in line with the accounting policy disclosed in the consolidated financial statements of HEINEKEN for the year ended 31 December 2019. The ECL assessment was updated to correctly reflect historic, current and forward looking information regarding expected credit losses, and involves judgement. As part of these assessments, HEINEKEN has incorporated all reasonable and supportable information available such as whether there has been a breach or deterioration of payments terms, a request for extended payment terms or a request for waived payment terms.	Heineken states: • the amount, • the same accounting policies as in the 2019 financial statements, • the existence of management estimates, and • its key starting points.

Appendix 1 Objectives, methodology and selection for the review

Objectives

The objectives of the review are:

- To encourage companies to provide transparent and comprehensible disclosure of the effects of COVID-19 on their 2020 financial reporting and the measures they have taken.
- To identify and publish examples of good practice in order to positively influence the quality of 2020 financial reporting.
- To gain insight into which companies have been significantly affected by COVID-19. This will be used as input for the (qualitative) risk analysis for the desktop reviews of the 2020 financial reporting.
- To obtain an impression of the quality of the disclosures of the current and expected effects of COVID-19 and the measures designed to limit the negative consequences.

Methodology

The AFM has reviewed the 2020 semi-annual reports of 26 listed companies (see 'selection' below) with respect to the disclosures of the current and expected effects of COVID-19 on their financial position, performance and cash flows, and the measures taken by these companies to limit the negative effects of COVID-19. This review was conducted using a desktop review with a questionnaire prepared by the AFM, with questions on:

- the effects of COVID-19 and the measures taken by companies to limit the effects of COVID-19 as much as possible,
- the valuation of assets and liabilities,
- the going concern assumption and the financial covenants, and
- 'new' items that did not appear in the 2019 annual reporting.

The reporting of non-financial information on policy, risks and performance with respect to the environment, human rights, and social, personnel and anti-corruption aspects, the business model and climate-related disclosures was not a specific part of this review. In addition, we note that this review did not (or not specifically) focus on compliance with the applicable reporting standards in the 2020 semi-annual reporting.

Selection

Our review focused on the 2020 semi-annual reporting of companies with a market listing in the Netherlands and a closing date of 31 December that prepare consolidated reporting in accordance with IFRS. 98 companies that meet these criteria had filed their 2020 semi-annual reports with the AFM by 1 October 2020. From this population, we selected companies where negative effects would be expected, because this may relate to possible going concern issues. For this we have selected public limited companies whose share price has declined by more than 20% in the first half of 2020, as well as public limited companies reporting a decline in revenue of more than 10%. The selection was then limited on the basis of each company's impact, taking account of aspects such as market capitalisation, index and free float. We selected a total of 26 listed companies for this review.

Appendix 2 Overview of relevant newsletters

Date	Newsletter title (translated)
28 October 2020	Aspects requiring attention by issuing institutions in their 2020 annual reporting (ECEP 2020)[24]
22 July 2020	ESMA: consistency in the supervision of COVID-19-related rent concessions in financial reporting[25]
20 May 2020	Issuing institutions must be clear about the consequences of the coronavirus crisis in their semi-annual reporting[26]
17 April 2020	ESMA publishes new Q&A on alternative performance measures (APM)[27]
27 March 2020	AFM to apply lenience to late publication and filing of financial reporting[28]
25 March 2020	Statements in financial reporting and audit reports in connection with the coronavirus pandemic[29]

[24] https://www.afm.nl/nl-nl/professionals/nieuws/2020/okt/aandachtspunten-jaarverslaggeving-2020-esma
[25] https://www.afm.nl/nl-nl/professionals/nieuws/2020/juli/esma-consistentie-covid19
[26] https://www.afm.nl/nl-nl/professionals/nieuws/2020/mei/gevolgen-corona-halfjaarlijkse-financiele-verslaggeving
[27] https://www.afm.nl/nl-nl/professionals/nieuws/2020/april/esma-qena-apm
[28] https://www.afm.nl/esma-deponeren-verslaggeving-covid-19
[29] https://www.afm.nl/nl-nl/professionals/nieuws/2020/mrt/esma-ceaob-fin-verslaggeving-covid19

Appendix 3 List of abbreviations

AFM - the Dutch Authority for the Financial Markets

BC - Basis for Conclusions

CAPEX - Capital expenditures

ECEP - European Common Enforcement Priorities

ESMA - European Securities and Markets Authority

IAS - International Accounting Standards

IASB - International Accounting Standards Board

IFRS - International Financial Reporting Standards

MAR - European Market Abuse Regulation

NBA - The Netherlands Institute of Chartered Accountants (Koninklijke Nederlandse Beroepsorganisatie van Accountants)

N.V. - Public limited company

NC COS - Further regulations regarding audit and other standards (Nadere Voorschriften Controle- en Overige Standaarden)

TLTRO - Targeted Longer-Term Refinancing Operations

VEB - The Dutch Stockholders' Association (Vereniging van Effectenbezitters)

Wft - The Dutch Financial Supervision Act (Wet op het financieel toezicht)

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