COVID-19: U.S. and international securities regulators offer guidance, relief to firms

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The global public health crisis resulting from the spread of novel coronavirus (COVID-19) has prompted U.S. and international securities regulators to begin to respond to potential financial and market impacts of the crisis. In the U.S., the SEC has taken some of the more expansive actions by providing relief from certain filing deadlines and by providing more generalized guidance. The SEC's relief is similar to relief the agency has previously granted for companies affected by recent hurricanes.

Some international securities regulators also have taken steps to temporarily ease financial reporting and disclosure obligations for affected companies. With respect to firms' financial reporting obligations, many of the issues posed by COVID-19 address questions of whether companies and their auditors have access to needed information in order to timely prepare financial reports.

COVID-19 emerged in late 2019 in Asia and has spread to other countries within the past three months, including the U.S. Several global and domestic health agencies along with some universities provide regularly updated public information about COVID-19. The World Health Organization on March 11, 2020 formally declared that COVID-19 is a pandemic. Sources of public health information about COVID-19 include the following:

- U.S. Centers for Disease Control and Prevention
- U.S. State Department (travel advisories)
- World Health Organization
- Johns Hopkins University
- Canadian Government

Additionally, several securities and financial industry groups have posted information about business continuity plans, links to more public health resources, and policy statements about what they believe financial regulators should or should not do in response to concerns about COVID-19. The following organizations constitute a representative sampling of what securities-related industry groups have said about COVID-19 so far:

- Securities Industry and Financial Markets Association
- Business Roundtable
- Better Markets (Statement of March 2, 2020; Statement of March 10, 2020).
The discussion below contains information on steps taken by the following U.S. regulators: SEC, CFTC, the North American Securities Administrators Association, the Financial Industry Regulatory Authority, and the Municipal Securities Rulemaking Board. A separate section contains information regarding the responses by a selected group of international financial regulators.

**Securities and Exchange Commission**

SEC Chairman Jay Clayton noted the potential impact of COVID-19 in a public statement related to other disclosure effectiveness initiatives on January 30, 2020. “This is an uncertain issue where actual effects will depend on many factors beyond the control and knowledge of issuers. However, how issuers plan for that uncertainty and how they choose to respond to events as they unfold can nevertheless be material to an investment decision,” said Clayton.

Since then, the SEC has issued an investor alert, additional guidance for dealing with audit-related matters, and extensive relief for issuers required to make SEC filings. More recently, the SEC announced that, like workers at other types of businesses, some SEC staff are working remotely. A statement on the SEC’s webpage on March 10, 2020 stated: “Many SEC staff located in our Washington, D.C. headquarters are currently teleworking. During this period, the SEC remains fully operational and focused on fulfilling our mission on behalf of America’s investors and our markets.”

**Auditors and financial reporting**

SEC and PCAOB officials addressed COVID-19 in a public statement issued on February 19, 2020. That statement was the product of a series of meetings between SEC and PCAOB officials and leaders of the Big Four auditing firms that were initially focused on the inability of the PCAOB to inspect audit work of PCAOB-registered audit firms in China. However, more recent discussions also involved the emerging financial risks associated with the global spread of COVID-19.

The SEC/PCAOB discussions with the Big Four audit firms also addressed the potential impact of COVID-19 on U.S.-listed firms based in the U.S., China, and in other locations affected by COVID-19. Some of the concerns expressed focused on audit quality and the ability of audit firms to access company information and personnel. As a result, the statement urged companies to work with their audit committees and auditors to support the financial reporting and auditing functions. The statement explained that the manner in which companies “plan and respond” to a risk like COVID-19 can be material to investors.

With respect to COVID-19, the statement specifically mentioned that companies may need to disclose subsequent events under Accounting Standards Codification 855 and that the SEC could grant relief from the filing requirements of the federal securities laws.

**Filing relief**

The SEC announced on March 4, 2020 that it will allow companies affected by the global spread of COVID-19 to delay certain filings by up to 45 days. An SEC press release said the agency’s divisions and offices continue to monitor developments and could issue additional appropriate relief (Order
March 12, 2020


Time period and filing requirements. The Commission’s order stated that the time period for relief would run from March 1, 2020 through April 30, 2020, although the agency could extend the time period if developments warrant. The order suggested that the conditional relief to be granted to affected companies is an attempt to balance the hardships faced by companies affected by COVID-19 against investors’ need for timely, material disclosures from these companies.

The Commission established four conditions to invoking the available filing relief:

- The company is unable to meet the filing deadline because of COVID-19.
- The company must furnish a Form 8-K or Form 6-K by the later of March 16, 2020 or the original filing deadline. The report must state basic information about why the company invoked the filing relief, including a brief statement of the reasons it could not meet the filing deadline, a statement of when the company plans to file the report, an appropriate risk factor, and documentation via an exhibit regarding why a report is delayed because of another person's inability to provide a required opinion, report, or certification.
- The report must be filed no later than 45 days after the original deadline.
- The company must disclose that it is relying on the Commission’s order granting conditional relief and state why it cannot timely file the report.

Proxies. A second component of the Commission’s order addressed the furnishing of proxy and information statements. The purpose of the relief to be granted is to deal with a situation where a company is unable to deliver proxy materials because of disruptions in mail delivery due to COVID-19 in areas where its securities holders are located.

As a result, a company may invoke the Commission’s conditional relief if:

- The company’s security holder has a mailing address in an area where mail delivery has been suspended due to COVID-19.
- The company or other person making a solicitation has made a good faith effort to furnish soliciting materials or information materials to an affected security holder in accordance with rules applicable to the delivery of soliciting and information materials.

Forms S-3 and S-8, other reports. Moreover, under an “Additional Information” statement within the SEC’s March 4, 2020 press release on the COVID-19 filing relief, affected companies will be considered current in their reporting regarding Forms S-3 and S-8 if they are current as of the first day of the relief period and file any report due during the relief period within 45 days of the filing deadline for the report. The Form S-3 relief also would apply to companies that have well-known seasoned issuer status, which partially depends on eligibility to use Form S-3. The Form S-8 relief also applies to the current public information eligibility requirements of Rule 144(c).
With respect to Exchange Act annual and quarterly reports for which relief has been granted under the Commission’s order, a company would have a due date 45 days after the filing deadline for the report and the company could rely on Exchange Act Rule 12b-25 in the event it cannot meet the extended due date.

**General disclosure issues.** The SEC’s press release offered some more generalized disclosure concerns for all companies. For one, companies that identify material COVID-19 risks should delay engaging in securities transactions with the public and take steps to ensure that their executives and other corporate insiders also refrain from initiating securities transactions until the company makes the material information available to investors.

The SEC’s admonition would appear to address the subject matter of Congressional legislation that was **prompted** in part by reports that an Intel executive had allegedly sold company stock during a time when a cybersecurity vulnerability in an Intel chip had not yet been made public. Chairman Clayton has previously **testified** about the need for good corporate hygiene regarding corporate insiders’ stock transactions.

“How companies plan and respond to the events as they unfold can be material to an investment decision, and I urge companies to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements,” said Clayton.

The press release also noted that COVID-19 disclosures should be made broadly and should not be selective in nature. Moreover, companies that provide forward-looking information (e.g. known trends or uncertainties) could invoke the safe harbor contained in Exchange Act Section 21E.

**Investment Management Division statement.** The SEC’s Division of Investment Management also issued a **statement** on fund board meeting in-person attendance. Because of the COVID-19 crisis, the Division has extended certain relief for in-person meetings to “to cover all approvals and renewals (including material changes) of contracts, plans or arrangements under Section 15(c) or Rules 12b-1 or 15a-4(b)(2), as well as the selection of a fund's independent public accountant pursuant to Section 32(a) where such accountant is not the same accountant as selected in the immediately preceding fiscal year.”

The revised staff position is an extension of a February 2019 no-action letter issued by the Division to the Independent Directors Council that was limited to “unforeseen or emergency circumstances.” The revised position applies to board meetings held between March 4, 2020, the date of the staff’s statement, and June 15, 2020.

The Division also said it would monitor developments and could extend the new position with additional conditions, as needed. The Division further urged funds to evaluate their business continuity plans and valuation procedures.

**SEC assistance; executive signatures.** The SEC said it would work with companies on a case-by-case basis to address the need for additional or different forms of assistance. Specifically, the SEC said companies should contact SEC staff regarding any issues that may arise due to a company executive being unable to sign documents because he or she is located in a quarantine zone.
Other securities disclosure considerations

There are many factors that inform annual and periodic reports filed or furnished with the SEC. Companies should consider the requirements set forth in the specific form to be filed or furnished. In addition, companies should review the requirements for financial reports contained in Regulations S-K and S-X.

Two items within Regulation S-K deserve special consideration. First, Item 105 of Regulation S-K requires a company to provide a list of the most significant factors that make an investment in the registrant or offering speculative or risky. A company should focus on risks specific to the company and not on generic risks that apply to all companies. It may be helpful for a company to review risk factors cited by other comparable companies in the same industry as a rough guide to what issues may be significant enough to include in a risk factors section within a filing.

Second, Item 303 of Regulation S-K requires companies to include a Management’s Discussion and Analysis of financial condition, changes in financial condition and results of operations. Specifically, Item 303 requires a company to discuss: (1) liquidity; (2) capital resources; (3) results of operations; and (4) off-balance sheet arrangements. A company also must provide a tabular disclosure of contractual obligations.

A sampling of disclosures made to date regarding COVID-19 suggests how a small number of prominent companies with global exposures have handled the situation. Apple, Inc., for example, disclosed in a February 18, 2020 Form 8-K that it would likely not meet its prior Q1 guidance for two reasons related to COVID-19 in China: (1) it would take time to reopen manufacturing sites in China resulting in temporary global supply and revenue drops for iPhones; and (2) demand for Apple products in China had fallen due to store closings and fewer shoppers at stores that were open. Apple said its next earnings call was scheduled for April 2020.

General Electric Corporation’s Form 10-K filed February 24, 2020 included a risk factor on pandemics and other potential disruptions while also stating that COVID-19 had disrupted production in China. The company’s forward-looking statements section also listed COVID-19 as an uncertainty.

The airline industry has been especially hard hit by the emergence of COVID-19. In an address to the nation on March 11, 2020, President Trump announced new travel restrictions on flights from Europe to the U.S. that will result in “suspending all travel from Europe to the United States for the next 30 days.” The new restrictions will provide for some exemptions and will not apply to the U.K. The U.S. State Department had previously issued a “do not travel” advisory for China.

Several of the major U.S. airlines with global exposures have announced reductions in capacity and have withdrawn early 2020 guidance. United Airlines Holdings, Inc., for example, included a risk factor and footnote on subsequent events regarding COVID-19 in its February 25, 2020 Form 10-K. United later stated in a March 10, 2020 Form 8-K that it had taken numerous actions in response to the spread of COVID-19, including suspending a share buyback program after COVID-19 spread...
to Italy, postponing non-critical projects, raising new liquidity from banks, withdrawing Q1 2020 guidance, and announcing that its CEO and president would forgo their base salaries through at least June 30, 2020.

Market-wide circuit breakers; trading suspensions

U.S. equities and options exchanges have implemented market-wide circuit breakers that can result in trading halts when certain thresholds are met. The NSYE’s website contains a description of these circuit breakers, which at lower thresholds can result in a 15 minute trading halt. On March 9, 2020, for the first time since 1997, a seven percent drop in the S&P 500 early in the trading day triggered a 15 minute trading halt. Multiple reasons may have accounted for the sudden drop in markets, including concerns about oil prices and COVID-19. The circuit breakers were once again triggered on March 12, 2020. Market-wide circuit breakers were first implemented after the October 1987 market decline.

Moreover, the Commission has the power under Exchange Act Section 12(k)(1)(A) to suspend trading in an issuer’s security (other than an exempted security) for up to 10 business days if, in the Commission’s opinion, doing so is required for the public interest and the protection of investors. The Commission has broadly construed this power to emphasize the discretion inherent in the statutory language “in its opinion.” In 2015, for example, the Commission upheld a trading suspension of a company’s stock where the company had made claims about products it offered and the then-ongoing Ebola crisis in Africa (See e.g., Commission opinions regarding Bravo Enterprises Ltd., Immunotech Laboratories, Inc., and Myriad Interactive Media, Inc.).

The Commission also may suspend trading on any national securities exchange for up to 90 calendar days under Exchange Act Section 12(k)(1)(B). The Commission must notify the president of such a decision and the president must in turn notify the Commission that he or she does not disapprove of the action. The Commission must consult with the CFTC if a trading suspension of an individual issuer’s security or of a national securities exchange involves a security futures product.

Investor alert

The SEC’s Office of Investor Education and Advocacy issued an investor alert on February 4, 2020 reminding investors to question any claims companies may make about products or services they offer regarding COVID-19. Specifically, the alert warned of claims made in “research reports” and claims about “target price[s].” The alert said the office had become aware of questionable claims made via the Internet and social media.

The alert further cautioned investors to be wary of pump-and-dump schemes related to microcap stocks. The Commission has authority to suspend trading in individual stocks and investors could find it difficult to sell shares of a company whose stock is subject to an order of suspension. The SEC updated the investor alert as of February 25, 2020 to include information about two companies for which questions had arisen about the availability of public information about the companies’ claimed coronavirus treatments.
Commodity Futures Trading Commission

Although the CFTC has so far not issued any specific guidance regarding COVID-19, the agency has indicated that it may reconsider the timing of certain scheduled events. The CFTC has stated that it is monitoring developments regarding COVID-19 with respect to scheduled events and would provide updates to event agendas as soon as possible. In the case of the CFTC’s and Kansas State University’s third annual Agricultural Commodity Futures Conference (AgCon2020) set for early April in Overland Park, KS, the CFTC said registrants who cannot attend can request refunds until March 24, 2020. The CFTC’s Energy and Environmental Markets Advisory Committee (EEMAC) is scheduled to hear comments on the agency’s position limits proposal on March 24 in Washington, D.C. The CFTC also is scheduled to hold an open meeting in Kansas City, MO on Tuesday, March 31, 2020. The CFTC, however, announced on March 11, 2020 that it would postpone the AgCon2020 event and it will hold the scheduled open meeting in Washington, D.C. instead of Kansas City, MO.

Separately, the National Futures Association (NFA) issued a statement urging firms to update their business continuity plans (BCPs) and to offer employees refresher training on the requirements for working remotely. The NFA also stated: “Although the Coronavirus has not been declared a pandemic, we strongly encourage Members to ensure that their plans address this type of situation. Members should identify key relationships (e.g., clearing firms, telecommunications networks, third party providers, internal departments, mail or email services, utilities, etc.), assess the risks a pandemic poses to those relationships, and understand how a pandemic may materially impact their businesses.” [The WHO has since declared COVID-19 a pandemic.]

Moreover, CME Group announced on March 11, 2020 that it will temporarily close its trading floor in Chicago. The firm, however, said its headquarters would remain open. CME Group explained that the decision to close the trading floor was made as a precautionary step to prevent the spread of COVID-19, although no such cases had been reported regarding the firm’s trading floor. The trading floor closure is effective as of the close of business on March 13, 2020.

Financial Industry Regulatory Authority

FINRA stated that it is closely monitoring developments regarding COVID-19 and that it would adhere to recommendations made by the CDC. FINRA also asked those at higher risk for COVID-19, such as persons who have recently traveled to high risk areas or who have had close contact with others who have traveled to such areas, to refrain from attending FINRA events. FINRA said attendees at FINRA events should observe basic hygiene, including washing their hands. FINRA later announced that it had cancelled or postponed all scheduled events through April 6, 2020 and would consider hosting future events on a case-by-case basis.

On March 9, 2020, FINRA issued updated guidance (Regulatory Notice 20-08) on pandemic-related business continuity (BCP) planning that builds upon prior guidance issued in 2009 (Regulatory Notice 09-59). Generally, FINRA urged member firms to reconsider their existing BCPs to determine if they are flexible enough to address the potentially varied effects of COVID-19.
FINRA Rule 4370 requires member firms to have BCPs that are reviewed annually and then updated for material changes. Firms have flexibility to develop BCPs provided they satisfy the rule's minimum requirements. With respect to COVID-19, FINRA suggested that firms consider updating their emergency contacts to facilitate communications between FINRA and firms. FINRA also suggested several pandemic-related topics for firms to consider as they evaluate their BCPs: (1) absenteeism; (2) the use of remote work locations; (3) travel restrictions; and (4) the potential for technological disruptions.

Under Rule 4370, the minimum requirements to be addressed in a BCP are:

- Data back-up and recovery (hard copy and electronic);
- All mission critical systems;
- Financial and operational assessments;
- Alternate communications between customers and the member;
- Alternate communications between the member and its employees;
- Alternate physical location of employees;
- Critical business constituent, bank, and counter-party impact;
- Regulatory reporting;
- Communications with regulators; and
- How the member will assure customers’ prompt access to their funds and securities in the event that the member determines that it is unable to continue its business.

FINRA also provided specific considerations and regulatory relief regarding multiple topics, including:

- **Use of remote work locations**—FINRA recommended testing remote working plans before activating a BCP. Member firms must have systems “reasonably designed” to supervise associated persons who work remotely. FINRA also noted the possibility that onsite inspections may have to be postponed.
- **Cybersecurity**—FINRA cautioned that remote working and other arrangements may increase cyber-related risks and that firms should verify that they are using appropriate and current cybersecurity methods to reduce such risks.
- **Forms U4 and BR**—FINRA temporarily suspended the obligation to file updated information on Forms U4 and BR for persons who temporarily work remotely and for firms’ temporary branch locations.
- **Regulatory filings and interactions**—FINRA said firms experiencing difficulties making FOCUS or Form Custody filings or which are subject to open inquiries or investigations should contact their risk monitoring analyst or the appropriate FINRA department regarding the need for extra time. FINRA said it may waive late fees in some instances. Firms also should consider the reserve deposit requirements under Exchange Act Rule 15c3-3.

Moreover, FINRA stated via a Technical Notice that it continues to review its own pandemic and BCPs regarding FINRA facilities, such as the Alternative Display Facility and the FINRA Trade Reporting Facilities. Said FINRA: “FINRA anticipates that the FINRA Facilities will remain fully operational in the event of a pandemic.”
North American Securities Administrators Association

NASAA cautioned investors in a February 28, 2020 alert to beware of potentially fraudulent schemes related to COVID-19. Specifically, NASAA warned of schemes that boast of “safer, guaranteed investments.” NASAA offered three factors to consider in deciding if an investment may be fraudulent: (1) are high returns guaranteed or is the investment promoted as having low risks; (2) does the investment have a limited availability; and (3) whether the person offering the investment has appropriate licenses.

Municipal Securities Rulemaking Board

The MSRB reminded entities on March 9, 2020 of the applicable supervisory requirements given the spread within the U.S. of COVID-19. Specifically, MSRB Rules G-27 and G-44 require firms to supervise the municipal securities activities of brokers, dealers and municipal securities dealers and to supervise the municipal advisory activities of municipal advisors. The MSRB said neither rule mandates in-person supervision and, thus, the rules contemplate the possibility of remote supervision.

Separately, the MSRB noted on its events webpage that it had imposed restrictions on conferences and other events. Said the MSRB: “The MSRB is monitoring the global Coronavirus (COVID-19) situation and has suspended all work travel and in-person conference attendance at this time.”

International Securities Regulators

A sampling of international securities regulators indicates that some regulators have taken specific steps to ease burdens on companies and markets in response to COVID-19, while others continue to monitor developments. The following discussion summarizes the actions taken by a select group of foreign financial regulators. Readers should routinely check directly with their relevant domestic and foreign regulators for further updates on how to proceed with filings, reports, and other regulatory compliance matters in light of global developments regarding COVID-19.

South Korea. The South Korea Financial Services Commission on February 28, 2020 announced plans to extended credit guarantees and low-rate loans, especially for smaller firms. At that time, the FSC said it would issue further guidance as needed. In the weeks since that announcement the FSC has taken the following additional steps:

- Established an emergency financial market monitoring and response system (March 5, 2020).
- FSC Vice Chairman Sohn Byungdoo participated in a conference call of the Financial Stability Board Steering Committee at which he noted measures taken by Korea to contain COVID-19, to make available financial support for smaller businesses, to improve market monitoring, and to create business continuity plans (March 6, 2020).
- The FSC stated that financial institutions were prepared to provide COVID-19 aid to businesses. With respect to an inspection of business continuity plans, the FSC stated: “The FSC found that
the capital markets infrastructure, the payments systems, the financial service providers and the financial information security provider have all shown adequate levels of BCP through the operation of alternate business locations, remote system access, etc.” (March 10, 2020).

• The FSC announced that beginning March 10, 2020 and continuing for three months, the regulator will impose stricter short-selling rules. The announcement did not cite COVID-19 but rather said the measure was taken “in response to the recent market volatility” (March 10, 2020).

**Singapore.** The Monetary Authority of Singapore (MAS) on February 14, 2020 expressed support for measures taken then by financial institutions to ease financial burdens on corporations and individuals due to COVID-19. The MAS also said insurance companies had clarified that many policies would cover hospital costs related to COVID-19.

Moreover, the Singapore Exchange Regulation (SGX RegCo) on February 27, 2020 announced a waiver that would extend the time for companies to hold annual general meetings (AGMs) to approve their FY December 2019 financial results. To address concerns about in-person meetings, the SGX RegCo suggested that firms could hold pre-AGM “virtual information sessions” and “simultaneous webcasts” of AGMs. The waiver for AGMs expires June 30, 2020. The SGX RegCo said the waiver was in addition to prior guidance the SGX RegCo issued regarding firms whose principal place of business is China.

**Hong Kong.** The Securities and Futures Commission (SFC) and The Stock Exchange of Hong Kong Limited jointly issued guidance on February 4, 2020 to firms subject to Hong Kong regulations. For one, a company that is unable to publish a preliminary announcement of results should contact the exchange. The company must explain how travel restrictions related to COVID-19 have affected its ability to comply with reporting requirements, provide any information it can report on, and state if the accuracy, completeness or presentation of that information has been adversely affected. A company may be able to publish preliminary reports without the agreement of its auditors in some instances by the applicable deadline but, in other cases, the company should contact the exchange as soon as practicable regarding reportable information.

The joint announcement also addressed Hong Kong laws regarding inside information. Specifically, the announcement said a company whose operations have been materially disrupted by COVID-19 should evaluate whether it has in the interim acquired inside information and then make that inside information public via a separate statement as soon as practicable, regardless of existing listing requirements.

**United Kingdom.** The U.K. Financial Conduct Authority (FCA) issued a statement on March 4, 2020 in which it said all companies should have contingency plans for “major events.” Companies also must take “all reasonable steps” to comply with applicable regulations. As an example, the FCA said, among other things, firms should be able to promptly enter orders and transactions into their systems. However, the FCA said it would not object if firms met their obligations via backup sites or had their employees work from home.
**European Securities and Markets Authority.** The European Securities and Markets Authority (ESMA) issued a statement on February 19, 2020 addressing ESMA’s outlook regarding a broad range of financial market risks, including COVID-19. Said ESMA: “ESMA sees a weaker economic outlook and continuing uncertainty over the potential impact of the coronavirus, global trade negotiations and Brexit.”

On March 11, 2020, ESMA issued an update explaining that ESMA, in consultations with National Competent Authorities, would monitor developments related to COVID-19 and that ESMA “is prepared to use its powers to ensure the orderly functioning of markets, financial stability and investor protection.” The announcement also reminded firms to take steps to ensure that they meet regulatory obligations, including the following:

- Be prepared to implement business continuity plans.
- Issuers should make relevant significant disclosures as soon as possible regarding the impact of COVID-19 on “fundamentals, prospects or financial situation.”
- An issuer should disclose the qualitative and quantitative impact of actual and potential COVID-19 effects on the firm in interim reports or, if not yet finalized, the firm’s 2019 year-end financial report.
- Fund managers should apply risk management requirements.

**Conclusion**

The global public health crisis resulting from the spread of COVID-19 will continue to evolve and it is incumbent on securities market participants to proactively keep themselves updated on developments. Market participants should consider how COVID-19 may impact their ability to make regulatory filings as well as how COVID-19 may impact their workforces, customers, and supply chains and the need to potentially make material disclosures about these topics. Available regulatory guidance already provides some early answers to these questions.