



**CORONAVIRUS (COVID-19)
IMPACT AND
RISK RESPONSE GUIDE**

CONTENTS

About this guide..... 3

Introduction..... 4

Epidemic prompts corporate disclosure..... 5

Impact and risk response..... 7

About BDO14

Sources15



ABOUT THIS GUIDE

This guide aims to provide insights into the relevant impacts of COVID-19. It gives general risk response guidance for companies to consider when deploying business continuity planning (BCP) measures to combat the epidemic and, more importantly, to maintain the agility to overcome the difficulties faced.

We understand that a single set of procedures or responses might not fit all organisations or each company's individual situation. We recommend that you contact your consultants for specific advice.

In no event will BDO, or its directors, employees or agents, be liable to you or anyone else for any decision made or action taken in reliance on this guide or for any consequential, special or similar damages, even if advised of the possibility of such damages.

RICKY CHENG

Director and Head of Risk Advisory
BDO in Hong Kong



INTRODUCTION

According to the World Health Organization (WHO), the current outbreak of coronavirus disease (COVID-19) was first reported in Wuhan, China, on 31 December 2019. Weeks later, the disease had spread across some other provinces and cities within China.

The Chinese government has introduced various measures to combat the spread of the coronavirus, including extending the national Chinese New Year holiday period to 2 February. Depending on the situation in each city, local governments in some provinces and cities have asked enterprises to delay the return to work until 13 February, suspended public transportation services and entertainment facilities, delayed the start of the new semester at schools and colleges, and checked the temperature of individuals at stations, ports, roads, and highway exits, etc. Any resident who has had physical contact with a person who is already infected with the coronavirus must report to a medical centre, stay in their own home or go to specialist facilities for observation.

Some enterprises in China are experiencing temporary stopovers in production and business operations, as their employees are either unable to resume their duties at the workplace or are being asked by their employers not to return to work. For example, a global phone manufacturer closed all its stores in the country in January, and most have yet to reopen. A well-known coffee shop chain has also closed its stores in China, and many shopping malls in the country have closed. Some international companies have instructed their employees to work from home in order to limit their exposure as the virus spreads; online businesses, operating systems developers and other tech companies have also limited employee travel to and from China.

Overseas companies whose business is dependent on the products of Chinese companies are also being affected. Recently, an automobile manufacturer temporarily closed a factory in Serbia because of shortages of Chinese parts.

As it is still unknown how long the epidemic may last, we recommend that companies carry out a thorough assessment of the risks and potential impact of the epidemic and implement swift responses to mitigate any business disruption.

3 March 2020

EPIDEMIC PROMPTS CORPORATE DISCLOSURE

Over the two months since the outbreak of the coronavirus, the impacts on businesses have progressively been unveiled. Some of these impacts include interruptions to the supply chain, labour shortages and the failure to meet revenue targets. Without doubt, investors and regulators are concerned about the outbreak's effects on business performance. To meet their information needs, they require adequate disclosure of interruptions to business and the mitigating measures that are implemented, and quantification of the impact of the consequences.



In Hong Kong, on 4 February 2020, the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong Limited jointly issued a statement (the Joint Statement) to guide listed companies and their auditors on the disclosure of financial information in their announcements of results in view of the travel and other restrictions that have been imposed due to the coronavirus outbreak. The Joint Statement does not provide for any blanket extension or waiver of the deadline or reporting requirements for results announcements.



In the US, on 30 January 2020, the Chairman of the Securities and Exchange Commission (SEC) mentioned in a note that the SEC would provide guidance and other assistance to issuers and other market participants on disclosures related to the current and potential effects of the coronavirus. US-listed companies (including companies based in the US, companies based in China and other companies based outside the US) may have significant operations in China and other jurisdictions that may be affected by the coronavirus. In addition, companies that do not operate in China or in other potentially affected jurisdictions may depend on companies that do have operations in those jurisdictions, including, for example, suppliers, distributors and customers.



In the UK, on 18 February 2020, the Financial Reporting Council (FRC) published guidance for companies on disclosing risks and other reporting consequences arising from the emergence and spread of the coronavirus. The FRC also advised companies to carefully consider what disclosures they might need to include in their year-end accounts; this advice will be especially relevant for companies that either operate in or have close trading associations with China. The extent of the risk and the degree to which it might crystallise depends on each company's specific business circumstances. For example, companies with extensive operations or manufacturing activities in China may face staff shortages and production delays. Besides, companies that do not have a presence in China but have significant trading links or global supply chains that are dependent on Chinese-manufactured goods will need to consider their disclosures if their businesses faces possible disruption.



IMPACT AND RISK RESPONSE

In the face of the epidemic, business managers are taking precautionary measures and busy working around the clock to formulate action plans to mitigate risks and their impact on business operations, while at the same time meeting the needs of their customers and other stakeholders. It is too early to assess the ultimate consequences on businesses, as the situation is still evolving. There are also signs that the disease is spreading across the world, as other countries have imported the virus and confirmed cases of infection.



Impact on sustainability



Impact on contract compliance



Impact on supply chain



Impact on health and safety



Impact on technology

Impact on sustainability

Although the impact of the coronavirus on businesses may not be catastrophic at this point of time, the companies concerned may experience a certain level of business disruption. For instance, companies in the hospitality and retail industries may see a sharp decline in the number of customers as people minimise their movement and avoid international travel.

Organisations may also be forced to cease operations for an extended period of time or operate below capacity due to the impact on their workforce, customers or suppliers.

These issues may affect companies' sustainability due to such factors as falling revenue, reduced financial liquidity and the going concerns of key business partners.



Risk response

It is difficult to assess whether the epidemic will end soon or continue for a prolonged period. Cash is king: the critical element in any time of uncertainty is to ensure that the company's liquidity position can be maintained and to buy time for the company to recover.

We recommend that the company management establishes a taskforce to monitor the level of impact on the business and, periodically and as needed, to report to the board on the status of the key performance indicators for critical business units. Companies may also consider the following actions, among others:

- Conduct a thorough risk assessment of business operations, taking a holistic approach across the globe rather than focusing on certain regions, to assess the level of possible interruption and formulate measures to mitigate potential impacts.
- Review the pace of expenditure in relation to the company's expansion plans and existing development projects (if any), and slow down the cash burn rate.
- Re-prioritise the allocation of resources to unaffected business lines.
- Explore and identify business transformation opportunities and models to reduce over-reliance on existing business segments.
- Identify measures for controlling budgets and making cost savings, such as assessing the possibility of outsourcing certain business processes in a cost-effective way.
- Explore opportunities for collaboration with new strategic business partners for new market development and to meet customers' needs.
- Identify alternative solutions if forced to suspend operations at the business premises.



Impact on contract compliance

Companies may not be able to manage all the coronavirus-related issues resulting from business interruptions, whether they are caused by third-party default or within the company, and some may be unable to meet their contractual obligations because of supply-chain interruptions or unforeseen events beyond the company's control hindering its performance.



Risk response

We recommend that companies consult their legal advisors and review their contracts to determine what, if any, rights and remedies they have as a result of the delayed performance of contracts.

Companies should also take (and document) reasonable steps to mitigate the impact of the coronavirus as evidence for defence. If companies cannot fulfil their contractual obligations, they may need to quantify the amount of financial damage and the impact on their long-term business relationships.

Companies should review their existing insurance policies to find out whether any losses they incur relating to the coronavirus can be covered under existing terms or whether they need to adjust their cover for maximum protection.



Impact on supply chain

Governments around the world have begun to take measures that limit the movement of goods and people between their borders and Chinese borders. As China is the factory of the world, it seems impossible to imagine a scenario in which the supply chain is not affected or disrupted.

For instance, one automobile manufacturer has already announced that it will stop production at a plant in Japan because of the coronavirus. A number of phone-manufacturing multinationals have expressed concern about the possible disturbances that may occur in their supply chains because of the productive stopovers imposed by the Chinese government as a precautionary measure to prevent the spread of the virus.



Risk response

If a company is aware of a risk of disruption in its supply chains, it should take the following steps, among others, to mitigate the potential consequences of any disruption:

- Understand the behaviour of disruptive models applied to the supply chain and establish the time point at which such disruption is located.
- Consider re-prioritising the production line to respond to market impacts associated with the threat, increase safety stock levels and stockpile essential supplies and resources.
- Pre-qualify alternative domestic or international suppliers and outsourced vendors in case primary suppliers can no longer provide support.
- Formulate contingency measures, give first response and anticipate possible failures in the supply chain. For example, examine the capacity of other suppliers in other geographical areas, change the production mix, plan for new delivery methods to reach customers.
- Assess if suppliers have documented plans for business unit continuity and information technology disaster recovery, including for critical business.
- Take into consideration the absence of a large number of critical staff over an extended period.
- Estimate the recovery time for the supplier's "mission-critical" business processes.
- Develop actions for business recovery. For example, finding and approving new suppliers, finding alternative modes of transport, identifying which of those options are available, and selling products on that basis.



Impact on health and safety

The coronavirus is an infectious disease. Gathering employees together at the workplace may put them at risk of exposure to the virus. The epidemic is making it challenging for companies to strike a balance between continually maintaining productivity and efficiency and providing a safe working environment for their employees.

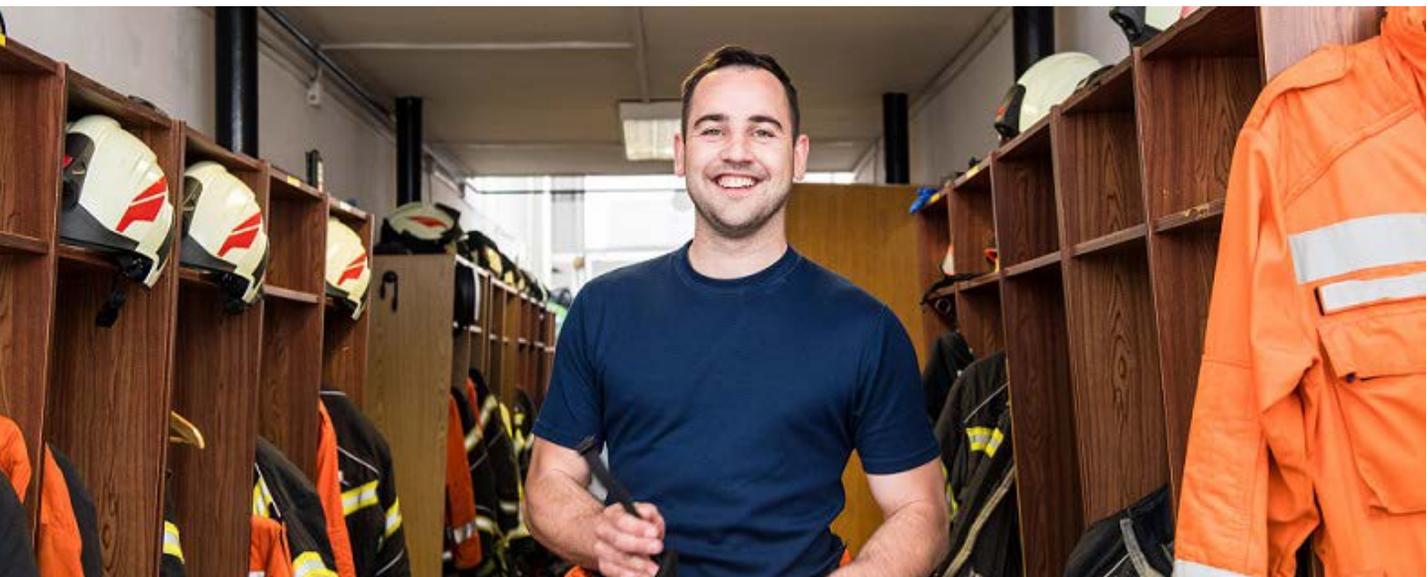
In any case, the early adoption of adequate preventive measures and maintaining an effective communicable illness policy can help ensure a safe work environment for employees, customers and clients.



Risk response

To protect employee and customer safety while minimising adverse economic impacts on the business, companies may consider the following actions, among others:

- Remind employees about the importance of maintaining personal hygiene and wearing a mask at all times in the workplace.
- Establish a quick process to identify who will take charge at operational locations (and overseas locations) to oversee a crisis management plan and local employees.
- Disseminate information on precautions to stop the spread of the virus.
- Constantly update on records of travel, and monitor employees' exposure to the source of the coronavirus.
- Adjust seating arrangements in the workplace so that a safe distance can be maintained between employees.
- Review and evaluate home office working policies and capabilities.
- Provide sufficient and accessible infection control supplies (e.g. supplies of masks).
- Establish procedures for regular body temperature checks for employees and visitors, and ensure these are followed.
- Comply with all compulsory reporting and quarantine requirements announced by the health authorities.
- Report on and monitor sick leave and symptoms.
- Anticipate fear, anxiety, rumours and misinformation among employees and plan communications accordingly.
- Develop a platform or communication channel (eg hotline) to communicate information about the pandemic inside and outside the organisation.



Impact on technology

The outbreak of the coronavirus has caused significant disruption to many businesses. As such, many companies have activated contingency and business continuity measures and have allowed employees to work from home to limit the spread of the virus. These employees are connecting to the company's networks remotely.

At the same time, with the popularity of smartphones and instant messaging applications, employees can communicate with colleagues, customers and vendors via mobile applications.



Risk response

In general, it is important to ensure that network connections are secure and mitigate the data protection risk associated with communicating through mobile applications. Companies may consider the following responses, among others:

- Assess if the security settings for remote connections and secured individual access mechanisms are in place.
- Adopt multi-factor authentication for employees who are logging into the company network.
- Review communications and information technology infrastructures as needed to support employee telecommuting and remote customer access.
- Enhance user awareness of cyber-attacks and alerts on these.
- Monitor the use of unauthorised computers (especially for companies that have adopted a Bring Your Own Device policy) and their access to the network.
- Review the data backup policy and the frequency and adequacy of backup practices.
- Review the appropriateness of using social media and instant messaging applications for business purposes. Minimise or even prohibit the transfer of confidential and business-related files over social media applications.
- Communication over instant messaging applications should always involve at least two relevant key employees in order to avoid loss of correspondence for future reference.





ABOUT BDO

BDO Global

BDO is the world's fifth largest global accounting and advisory network. BDO's global organisation extends across 167 countries and territories, with 88,120 professionals working out of 1,809 offices. BDO endeavors to deliver truly exceptional client service through a tailored solutions approach, while partnering with our employees and clients globally.

BDO in Hong Kong

BDO in Hong Kong, as part of the international BDO network, has committed to provide our clients with exceptional service since the establishment in 1981. BDO currently has over 50 directors and 1,000 staff in Hong Kong.

Our highly qualified professionals conform to the highest international standards in an extensive range of professional services, including:

- Assurance Services
- Business Services & Outsourcing
- Private Client Services
- Risk Advisory Services
- Specialist Advisory Services
- Tax Services

BDO Risk Advisory Services

Risk management and internal audit have always been the cornerstones of good corporate governance. Increased regulation, greater public scrutiny and increased globalisation have placed reliance on the Board, the Audit Committee and executives to oversee the effectiveness of risk management, financial operations and internal control systems. For large and small businesses alike, our Risk Advisory Service (RAS) Team has assisted companies in delivering enhanced corporate governance practices, including evaluating the performance of the internal audit function – from conducting a thorough assessment of risk across the organisation, to designing strategic internal audit programmes, to reporting findings to management, the Board and other stakeholders.

As well as identifying issues, we work with management to ensure that tailored solutions and appropriate controls are in place. At BDO, our RAS team is comprised of a group of dedicated and experienced professionals, enabling us to provide a wide variety of professional services including:

- Outsourced or co-sourced internal audit services
- IT security and digital services advisory
- ESG and sustainability reporting advisory
- Financial services advisory
- ISO certification assistance
- Corporate governance training

SOURCES:

- <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>
- <https://www.china-briefing.com/news/coronavirus-latest-emergency-measures-announced-prc-government>
- <https://www.nytimes.com/2020/02/17/technology/apple-coronavirus-economy.html>
- <https://www.supplychaindive.com/news/coronavirus-supply-chain-risk-management/572670>
- [https://www.frc.org.uk/news/february-2020-\(1\)/frc-advice-to-companies-and-auditors-on-coronaviru](https://www.frc.org.uk/news/february-2020-(1)/frc-advice-to-companies-and-auditors-on-coronaviru)
- <https://www.sec.gov/news/public-statement/statement-audit-quality-china-2020-02-19>
- <https://www.natlawreview.com/article/3-key-risk-management-responses-to-coronavirus>
- <https://www.kwm.com/en/hk/knowledge/insights/sfc-hkex-statement-on-results-announcements-due-to-coronavirus-outbreak-20200212>
- <https://www.riskmanagementmonitor.com/managing-coronavirus-business-interruptions>
- <https://www.bdo.es/en-gb/insights/international/the-coronavirus-tests-the-spanish-supply-chains>
- <https://www.aon.com/apac/insights/risk-alerts/2020/coronavirus-risk-advisory-alert-latest-updates.jsp>
- <https://www.aon.com/event-response/coronavirus.aspx>

BDO Risk Advisory Leaders

If you have any questions, comments or suggestions, please contact us. Learn more about BDO Risk Advisory Services, please visit www.bdo.com.hk/en-gb/services/advisory/risk-advisory



JOHNSON KONG
Managing Director - Non Assurance
johnsonkong@bdo.com.hk



RICKY CHENG
Director and Head of Risk Advisory
rickycheng@bdo.com.hk



PETER PANG
Director of Risk Advisory
peterpang@bdo.com.hk

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

© BDO Limited

www.bdo.com.hk



BDO Limited 香港立信德豪



BDO Limited 香港立信德豪