

# Considering adding a subsequent event footnote to your financial reports in light of the COVID-19 pandemic?

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ASC 855 explains that an entity should recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Subsequent events are defined as events or transactions that occur after the balance sheet date but before financial statements are issued or available to be issued. There are two types of subsequent events:

- **Recognized subsequent events** are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.
- **Nonrecognized subsequent events** are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

The COVID-19 pandemic may trigger a nonrecognized subsequent event disclosure

as certain funds may incur substantial losses on financial assets measured at fair value. Guidance in ASC 855 for nonrecognized subsequent events, requires entities to disclose both “the nature of the event” and “an estimate of its financial effect, or a statement that such an estimate cannot be made,” if the absence of such disclosures would result in misleading financial statements.

Funds should consult with their respective audit committees and audit firms to carefully evaluate the need for a subsequent event footnote disclosure. Funds should also discuss any proposed language with fund counsel so that it can be harmonized with any risk disclosures being considered for the prospectus. This process should be documented to support evidence of such review.

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