

Financial Reporting Council

In July of this year UKSA and ShareSoc members received an email inviting them to participate in a survey being run by the Financial Reporting Council (FRC). The survey was part of a wider study being carried out by the FRC into Risk and Viability Reporting. Over 190 members responded, which was an excellent result. The FRC agreed that it would provide feedback for members on the results of the survey. The following article from Patrick Leach at the FRC summarises the findings.

Those who attended the event that the FRC ran for us on 21st November, 'Lifting the Lid on the FRC', will be aware that the hand-out notes at the event contained a slide giving very brief headline comments on the results of the survey. The article below provides more comprehensive feedback which can also be read by those who were unable to attend the event. One of the outcomes of event was that it made clear just how much the FRC values and wishes to encourage involvement from private investors in the work that it does. I shall be looking at ways in which we can make it easier for this to happen in future by ensuring that those who have an interest in any subject being investigated by the FRC know that it is going on and know how they can participate. The aim will also be to ensure that member input is properly coordinated.

A full report on the Risk and Viability Reporting project should be published shortly on the FRC's website. The draft report has already been circulated to the participating organisations for comment.

Peter Parry - UKSA Policy Director

Risk & Viability Reporting

Since the financial crisis there has been an increasing focus on how boards of companies manage risk and assess their viability. Investors are also increasingly focused on how directors promote the success of a company and how it manages risks that might threaten this success. In 2014, the Financial Reporting Lab ("the Lab") of the Financial Reporting Council announced a series of projects to cover business model, principal risk and viability reporting. These projects seek to explore the areas of most interest to investors and consider where companies face challenges in deciding what disclosures to make and how best to present them.

Having released *Business model reporting* in 2016, the Lab carried out a project on risk and viability reporting and published its report in November 2017. This project examines the views of companies and investors on the key attributes of principal risk and viability reporting, their value and use. In seeking the views of retail investors, a survey was sent out to UKSA and ShareSoc members, and it is encouraging that almost 200 responses were received.

Overall, the results from this survey were consistent with the messages heard from institutional investors. Below, we have provided more detailed results, split between principal risks and viability statements.

Principal risks

The questions on principal risk disclosures were aimed at understanding how the disclosures are used, and what information is most important to understand. Highlights from the survey results are as follows:

- 59% think that the annual report and accounts is important for providing principal risk information
- 57% say that their investment decisions are influenced by the robust risk assessment process in the annual report and accounts
- 62% say that their investment decisions are influenced by the principal risk disclosures in the annual report and accounts

- The most popular source of information to identify risks to companies is financial analysis and media, for example analysts' reports and financial/business publications (including business sections of national newspapers).
- For principal risk disclosures in the annual report:
 - The most useful piece of information is the changes in the principal risks since the previous year
 - Respondents also find categorisation of risks useful, although had no preference between type or timeframe
 - There is no obvious preference for risks being presented as either gross or net.
- 61% find useful the quantification of the impact of each principal risk. The vast majority would like to see the quantification of monetary impact and likelihood. Some respondents also suggested quantification of the impact on stakeholders.

The Lab's report confirms that the annual report and accounts is an important document for all investors, and identifies the provision of specific risk information as a key need of investors. As well as changes in principal risks and categorisation, the report also highlights (i) information around the priority of risks and (ii) clear linkage to other areas of the annual report and accounts, as key information for most investors.

Long-term viability statement

Following the outcome of the Sharman Inquiry, the viability statement was introduced in the 2014 version of the UK Corporate Governance Code in order to provide a means for directors to report annually on the long-term prospects of the company. The survey questions were aimed at understanding how useful information on long-term viability is to investors, and how aware they are of the viability statement disclosure. Key points are:

- The long-term viability of a company is important to 87% of respondents when making their investment decisions.
- However, only 43% of respondents are aware of the viability statement requirement in the Code. Of those that are aware, over half consider the viability statement useful.
- The most important information to include in the viability statement is: i) Length of period over which the company has assessed viability; ii) The assumptions and qualifications included in the assessment; and, iii) The sensitivity/scenario analysis conducted by the company.
- Respondents on average think that a 4 year time frame for viability is right. However, individual views ranged from 1 to 10 years, with several citing that it is dependent on the sector and business cycle.
- Almost all respondents think that disclosures on principal risks and uncertainties and long-term viability could be improved.

The Lab's report observes that for most companies the introduction of the viability statement has resulted in greater focus on risk management at board level, but that this is often not reflected in the viability statement disclosures. The report encourages companies to communicate positive messages in the viability statement about the long-term future of the company and how it is managing its risks. You can find *Risk and viability reporting* at www.frc.org.uk/investors/financial-reporting-lab, as well as copies of previous reports and information on future work. Finally, our thanks go to all members who have participated in the project.