Going concern, risk and viability

COVID-19 and Reporting in times of uncertainty - a look forward
Examples used
Our report highlights examples of current reporting practice that were identified by the Lab team.

Not all examples are relevant for all companies and all circumstances, but each provides an example of a company that demonstrates an approach to useful disclosures. Highlighting aspects of reporting by a particular company should not be considered an evaluation of that company’s reporting as a whole. Nor does it provide any assurances of the viability or going concern of that company, and should therefore not be relied upon as such. The examples used are selected by the Lab to illustrate the principles, and should not be taken as confirmation or acceptance of the company’s reporting more generally.
Introduction

In response to the COVID-19 pandemic, and based on discussions with investors, the Lab issued an infographic in March and two reports (and related summaries): Going concern, risk and viability and Resources, action the future in June 2020 relating to Reporting in times of uncertainty.

The June reports reflected the practice at the time, which was limited. Practice has evolved and, therefore this report aims to provide examples that reflect more recent reporting practice. Further examples of good practice and guidance can be found in the FRC Corporate Reporting Review’s Covid-19 Thematic Review.

Company reporting is continuing to develop to meet the challenges of the extended COVID-19 pandemic and the uncertainties that it brings. Against this backdrop, investors’ needs are evolving with the aim of understanding how companies are meeting the challenges of the pandemic.

This report looks back at key elements highlighted in the Lab’s previous work, considers current practice and takes a look forward at how reporting is developing.

The report focuses on the areas and themes addressed previously in the COVID-19 – Going concern, risk and viability report. Where relevant it includes examples of current disclosure practices and provides some ideas of how we expect disclosure to evolve. In addition, an update to the report focused on Resources, action, the future can be found on the FRC website.

Using QR codes
For those reading the report in a printed form, the QR codes provide a direct way to view linked publications using a mobile phone. To use the QR codes point your camera at the QR code (special QR reader apps may be required for older phones). The phone should then take you automatically to the publication.
Going concern, risk and viability - background

The level of uncertainty that still remains in the business environment reinforces the need for companies to disclose how they are managing the current situation.

Investors expect disclosures detailing a range of possible outcomes given the level of uncertainty – companies may, however, be concerned about providing such disclosures.

Disclosures should provide clarity about the key factors and events that impact the level of uncertainty and prospects over the short, medium and longer term.

Many parts of the annual report may be impacted by the current situation, but in this report, we consider the impact on three key areas of disclosure and whether and how such disclosures have changed over time:

- going concern;
- risk reporting; and
- viability statement.

Lab view
Different aspects and elements of disclosure can help investors and other stakeholders understand different elements of the future. However, no single element of reporting can or does answer all investor questions. Understanding is gained through good quality, connected and holistic disclosure across the annual and interim reports.
How to read this report

This report is structured to provide a reminder of the views and practice that existed in June along with updates to reflect more recent disclosure practices. In addition, we provide some suggestions about how disclosure could evolve further to provide more information to investors. These suggestions are based on our observations of recent reporting practices in the context of the input received from investors prior to the release of the original reports.

The different sections of this report have been broken into four areas:

• key messages from the Lab’s earlier reports;

• an update on recent developments in corporate reporting;

• some thoughts regarding how corporate reporting can develop; and

• practical examples from reports and presentations released by companies since June.

This report follows the themes identified in June, namely: going concern, risk and viability.
Looking back

Disclosure around **going concern** helps to provide context in uncertain times. Given the level of uncertainty in the market in the early part of the crisis, a significant number of companies needed to highlight material uncertainties. This did not mean necessarily that the companies were in trouble, but was a natural reflection of the lack of certainty around many aspects of companies' business models, liquidity and strategy. In this context helpful disclosures:

- clarified the going concern position and detailed the factors that supported that decision;
- provided detail of the actions management planned to or were taking and their status;
- provided detail of the elements of uncertainty (specific to the business) and consideration of the impacts on the company where the position was subject to or impacted by uncertainty; and
- connected to broader reporting within the report, such as risk and viability disclosures.

Disclosure around **viability** should consider a period beyond the going concern period and provide insight into a company's longer-term prospects and viability. The uncertainty caused by the COVID-19 crisis provides an opportunity for the viability statement to act as a vehicle for companies to communicate a more stable long-term vision post crisis. However, while many statements do not do this effectively, the better statements:

- covered company-specific detail and context on both prospects and viability;
- provided details on actions and expectations; and
- provided details of realistic scenarios considered and key assumptions used.

Further disclosures that provide useful insight into the impact of COVID-19 on viability include:

- specific short and medium-term COVID-19-related factors that had been considered;
- details of how the board was monitoring and controlling the situation;
- details on business model resilience and actions with reference to the situations highlighted by COVID-19; and
- details of how COVID-19 had been reflected in scenarios and stress-testing of both prospects and viability.
Scenarios and forecasts are, necessarily, related to many of the themes discussed in this report.

Many different scenarios and underlying forecasts are considered and prepared by management when reporting on a company’s going concern and viability. In the original report, it was noted that useful aspects of disclosure included:

- Management’s base case for recovery over the short term and into a longer transition period.
- The key assumptions and the basis for each assumption.
- The sensitivity of the base case to movements in the key assumptions.
- Plausible upside and downside cases.
- The assurance and controls that management has around the forecasts.
- The process for updating scenarios.

Useful disclosures previously identified in the June reports, highlighting scenarios and related planning, include Informa (in their 2020 COVID-19 Action plan released in April 2020) and Norwegian Air Shuttle (in their presentation to Bondholders on 27 April 2020).

CRR thematic

In their Covid-19 Thematic Review released in July 2020, the FRC’s Corporate Reporting Review (CRR) team identified the following areas that represent an opportunity for enhancing disclosures in the context of going concern:

“Given the current uncertain environment, we expect company specific going concern disclosures to explain clearly the key assumptions and judgements that the board has made in determining whether or not the company is a going concern and whether or not there are material uncertainties.”

“We expect going concern discussion in the strategic report to reflect the going concern information presented in the notes to the accounts.”

In addition, the report encouraged interim financial statements to provide going concern disclosures which followed the same characteristics of good reporting that are applied in annual financial statements. Furthermore, companies should ensure that they disclose the significant judgements in respect of going concern in annual and interim reports.
Recent developments

Companies are providing more information to support management’s assessment that reporting on a going concern basis is appropriate. The majority of companies are providing information about the scenarios they have considered when assessing going concern and viability (refer to Land Securities and Ascential). However, some reported scenarios can be limited to generic information being provided regarding the underlying assumptions. The most commonly referred to scenarios are ‘best case’ and ‘realistic worst case’.

Information regarding going concern and viability incorporates assessments on various scenarios determined by management (refer to Auto Trader, Nedbank and National Grid). Some companies provide insight into the expected impact of different scenarios on different aspects of performance and other metrics (refer to Next).

It is noticeable that information presented in interim and quarterly information is far less detailed than that provided in annual reports. Given the level of uncertainty, it would be useful for companies to provide a detailed update at any time they report to the market.

Looking forward

Useful disclosure would discuss the process for identifying scenarios, determining the related inputs and adjusting these for changes in circumstances and how these are monitored and evaluated over time. The actions management has taken to mitigate against such changes should be explained. As time passes, there is an expectation that companies would provide an update about the status of the scenarios outlined and their progress against these.

In their Covid-19 Thematic Review released in July 2020, the FRC’s CRR team stated the following about scenarios and stress testing in the context of going concern:

“We also expect disclosure of the possible scenarios that could lead to failure, and details of any mitigating actions available to the board. The disclosures presented should be sufficiently granular to enable a user to understand clearly the way in which the company intends to meet its liabilities as they fall due.”

“Going concern disclosures could be further improved by including information which explains any reverse stress testing that has been conducted.”
What is useful?
Land Securities clearly explains the process applied to make the going concern and viability assessments. The impact of the viability scenario on key metrics includes the available financial headroom.

Viability statement
The viability assessment period
The Directors have assessed the viability of the Group over a five-year period to March 2025, taking account of the Group’s current financial position and the potential impact of our principal risks.

The Directors have determined five years to be the most appropriate period for the viability assessment as it fits well with the Group’s development and leasing cycles and is broadly aligned to the maturity of the Group’s floating rate debt facilities.

Process
Our financial planning process comprises a budget for the next financial year, together with a projection for the following four financial years. Generally, achievement of the one-year budget has a greater level of certainty and is used to set near-term targets across the Group. Achievement of the five-year projection is less certain than the budget, but provides a longer-term outlook against which strategic decisions can be made.

Impact on key metrics
We have assessed the impact of these assumptions on the Group’s key financial metrics over the assessment period, including profitability, net debt, loan-to-value ratios and available financial headroom.

<table>
<thead>
<tr>
<th>Key metrics</th>
<th>31 March 2020</th>
<th>Viability scenario 31 March 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan-to-value ratio</td>
<td>30.7%</td>
<td>41.3%</td>
</tr>
<tr>
<td>Adjusted net debt</td>
<td>£3,926m</td>
<td>£4,840m</td>
</tr>
<tr>
<td>EPRA net assets</td>
<td>£8,751m</td>
<td>£6,636m</td>
</tr>
<tr>
<td>Available financial</td>
<td>£1,163m</td>
<td>£(2,983)m</td>
</tr>
</tbody>
</table>

The viability scenario represents a significant contraction in the size of the business over the five-year period considered, with the LTV at 42.7% at its highest point in the assessment period.

The Group would be required to renew, or exercise extension options, for a minimum of £3.0bn of its debt facilities by the end of the period considered. The Directors expect this to be possible considering the Group’s expected loan-to-value ratio and the flexibility of the financing structure in place.

Confirmation of viability
Based on this assessment the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to March 2025.
robust exercise supports going concern conclusion under “severe but plausible” scenarios

In assessing going concern, and in accordance with FRC guidance, we consider a range of “severe but plausible” scenarios, which we have adapted to the current climate to stress test our cash flows. Critical assumptions include the shape and severity of the COVID-19 related recession in each region we operate in, the impact of that on the specific end-markets that we serve and when live events will be held. The three scenarios used for our 30 June 2020 assessment are as follows:

<table>
<thead>
<tr>
<th>Scenario modelling assumptions</th>
<th>Economy</th>
<th>H220 Events</th>
<th>H121 Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Containment and recovery</td>
<td>Swift rebound in economic activity in H2</td>
<td>Run as planned</td>
<td>Regular events as scheduled</td>
</tr>
<tr>
<td>2. Muted recovery</td>
<td>More severe economic contraction than during the 2008 financial crisis</td>
<td>Cancelled</td>
<td>Regular events as scheduled</td>
</tr>
<tr>
<td>3. Winter resurgence</td>
<td>Second lockdown from Q320, Economic contraction until 2023</td>
<td>Cancelled</td>
<td>All events deferred to H221</td>
</tr>
</tbody>
</table>

Across each of these scenarios we consider the financing headroom and covenant tests including a range of mitigating options, such as:

- Future dividend policy
- Option to pay a significant portion of the Flywheel deferred consideration in shares
- Further restructuring and cost cutting measures

What is useful?
Ascential provides good detail about the scenarios utilised when assessing going concern in addition to potential actions that may be taken in response.
Examples

**Scenario 1: Pandemic Impact**

*Link to risk - COVID-19, Economy, market and consumer behaviour.*

The current COVID-19 global pandemic and its impact on the UK economy has been considered. Government restrictions resulted in the temporary closure of retailers and impacted consumer buying behaviour. The risk of a second wave was also assumed in the model which has been demonstrated.

We have also assumed a 75% decrease in Consumer Services revenue and an 85% decrease in revenue from Manufacturer and Agency.

Following this period, as the pandemic progressed, recovery and the Group returned to normal trading conditions. However, there was a negative impact on retailer numbers. Cost savings in the year have been assumed mainly through a reduction in marketing spend as well as additional cost saving measures.

**Scenario 2: Data Breaches**

*Link to risk - COVID-19, IT systems and cyber security.*

The impact of any regulatory fines has been considered. The biggest of these is the General Data Protection Regulation (GDPR) fine for data breaches, which was enacted in May 2018. This scenario assumes a data breach resulting in maximum fine, coupled with a significant level of reputational damage to the Group's brand. This is consistent with the current impact of COVID-19, with lockdown restrictions eased in June 2020 and full reopening of retail and income generation in July 2020.

As a result of the data breach, a severe reduction in revenue was modelled through data loss, resulting in an initial 50% decrease in revenue driven by lost customers. An initial 40% decrease in Consumer Services and a 50% decrease in Manufacturer and Agency areas was also assumed through the loss of consumer and partner confidence. Modest recovery was assumed after the data breach and for the remainder of the financial year to March 2021. Marketing costs were increased to model a potential need to increase traffic.

The scenarios above both include the impact of the placing of new ordinary shares announced on 1 April 2020 with gross proceeds of £85.9m raised, or £83.2m net of fees incurred.

The scenarios also consider the biennial covenants attached to the Group's Syndicated RCF ensuring thresholds are met. The scenarios are hypothetical and serve the purpose of creating outcomes that have the ability to threaten the viability of the Group.

The results of the stress testing demonstrated that due to the Group's significant free cash flow, access to the Syndicated RCF and the Board's ability to adjust the discretionary share buyback programme, it would be able to withstand the impact and remain cash generative.

**Extent of lockdown period**

As mentioned above, the Group implemented measures to support retailers through the period that they could not trade. These measures included free advertising, in particular in the context of the company's principal risks.

Commentary is provided regarding the potential impact on the scenarios should stricter lockdown restrictions be reintroduced. In addition, the company specifies some of the actions that could be taken in response to such a situation, too.
What is useful?
Nedbank illustrates the impact of the COVID-19 pandemic on its short to medium-term scenario planning. This is achieved by providing the scenarios used just post-year-end (in January), and, included on the following page, those to be applied in March (prior to the Integrated Report being issued in April 2020) based on local and international developments.
The company has considered the potential impact of these scenarios on its business model and ability to create sustainable value for its stakeholders.
‘Managing through the Covid-19 crisis’ scenario - April 2020

The global economy enters recession in 2020 and growth recovers off a low base thereafter. Capital flows are erratic due to a risk-off environment. Deflationary pressures mount given the slump in oil prices. Major central banks keep interest rates low and continue to inject liquidity. Locally, we see temporary cohesion around Covid-19 containment but concerns around corruption and direction around economic policies return. The ‘State of disaster’ eases some pressure on Eskom. Later in the year power outages return. State reforms are limited and government finances deteriorate further. The lockdown is assumed to last 35 days and economic activity slowly builds up. Economic growth enters recession with GDP declining in 2020 by 7% before recovering off a low base. The Moody’s sovereign-credit-rating downgrade is discounted by the market. Inflation declines to below the mid-point of the MPC’s target range (3.9%) in 2020 and remains subdued thereafter. Interest rates in 2020 decline by 250 bps and moderate tightening is only expected from late 2021. Credit growth declines despite distressed borrowing and Covid-19 support measures. Corporates drawdown facilities and many industries experience stress, while households extend borrowing but banks remain cautious of higher levels of indebtedness during the crisis.

‘Sinking into darkness’ scenario - April 2020

In this high-risk and high disinflationary scenario the global impact of the Covid-19 pandemic extends into Q3 2020 but is eventually brought under control. Commodity prices rise briefly in H2 2020 before drifting lower. A risk-off environment remains despite monetary accommodation. Locally, poor service delivery, the land issue and SOE reforms lead to social discontent and unrest. Loadshedding continues and remains a problem. The fight against corruption loses momentum and attempts to resolve policy paralysis fail; public finances worsen, prompting further sovereign credit ratings downgrades. This scenario assumes the initial lockdown fails to contain the spread of the virus and is further extended to 42 days, with the bulk of the economy remaining in shutdown for an extended period. The economy contracts sharply in 2020 and at a lower level in 2021. Company failures rise and unemployment spikes. As a result consumer spending is negatively impacted and fixed investment remains weak, only recovering late in the period. Credit growth declines and recovery off a low base only starts in 2021. Arrears and bad debts worsen.
What is useful?

National Grid provides an explanation of the approach it has taken to determine longer-term viability.

The assessment incorporates identified principal risks and considers these in scenarios, either individually or as part of a cluster.

The company also discusses how the expected impacts of COVID-19 on its business plan and viability over the assessed period have been considered.
<table>
<thead>
<tr>
<th>Principal risk</th>
<th>Viability scenario</th>
<th>Matters considered by the Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major cyber security breach of business, operational technology and/or CNI</td>
<td>Scenario 1 – A significant cyber attack</td>
<td>The Board received updates on cyber security in:</td>
</tr>
<tr>
<td>systems/data.</td>
<td></td>
<td>• March 2019;</td>
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<td></td>
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<td>• July 2019;</td>
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<td></td>
<td></td>
<td>• December 2019;</td>
</tr>
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<td></td>
<td></td>
<td>• March 2020.</td>
</tr>
<tr>
<td>Failure to predict and respond to a significant disruption of energy that</td>
<td>Scenario 2 – An extended outage in the U.S.</td>
<td>Two Board Strategy sessions held during the year:</td>
</tr>
<tr>
<td>adversely affects our customers and/or the public.</td>
<td>included in the cluster testing of Scenario 9</td>
<td>• bi annual overviews;</td>
</tr>
<tr>
<td></td>
<td>and 10.</td>
<td>• review of the gas business strategies;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• external reviews of operational issues within the US gas business;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• review of the sequence of events on Friday 9 August.</td>
</tr>
<tr>
<td>Catastrophic asset failure resulting in a significant safety and/or</td>
<td>Scenario 3 – A gas transmission pipeline</td>
<td>• the Board reviews the current safety performance of the Company at each;</td>
</tr>
<tr>
<td>environmental event.</td>
<td>failure in the U.S.</td>
<td>• safety is a fundamental priority and is looked at in detail by the Safety,</td>
</tr>
<tr>
<td></td>
<td>included in the cluster testing of Scenario 10</td>
<td>Environment and Health Committee (SEH Committee) who have delegated authority</td>
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<td></td>
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<td>from the Board;</td>
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<td></td>
<td></td>
<td>• our Electricity and Gas Engineering Reports to the SEH Committee;</td>
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<td></td>
<td></td>
<td>• also provide progress updates on our asset management improvements.</td>
</tr>
<tr>
<td>Failure to adequately identify, collect, use and keep private the physical</td>
<td>Scenario 5 – The breach of personal data</td>
<td>annual updates on the Company’s Information systems.</td>
</tr>
<tr>
<td>and digital data required to support Company operations.</td>
<td>information.</td>
<td></td>
</tr>
<tr>
<td>Failure to build leadership capacity (including planning) to realise our</td>
<td>Scenario 6 – The state ownership of the</td>
<td>The Board received updates and reviews of:</td>
</tr>
<tr>
<td>vision and strategy.</td>
<td>energy sector in the UK.</td>
<td>• the impact of Hard Broek and access to the Internal Energy Market;</td>
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<tr>
<td></td>
<td></td>
<td>• proposed response to the Labour Party’s proposal to nationalise UK’s assets;</td>
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<td></td>
<td></td>
<td>• implementation of measures to strengthen ability to obtain fair price for</td>
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<td></td>
<td></td>
<td>UK assets if potential threat of state ownership materialises; and</td>
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<tr>
<td></td>
<td></td>
<td>• UK and US regulatory strategies.</td>
</tr>
<tr>
<td>Failure to influence future energy policy and secure satisfactory</td>
<td>Scenario 7 – A poor outcome of RIO-2</td>
<td>The Board received updates and reviews of:</td>
</tr>
<tr>
<td>regulatory agreements.</td>
<td>regulations.</td>
<td>• US regulatory strategy;</td>
</tr>
<tr>
<td></td>
<td>included in the cluster testing of Scenario 9</td>
<td>• UK regulatory strategy;</td>
</tr>
<tr>
<td></td>
<td>and 10.</td>
<td>• UK ESO regulatory strategy;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• key regulatory policy issues for 2019/20, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• RIO-2.</td>
</tr>
<tr>
<td>Failure to respond to the asset failure resulting in a significant safety</td>
<td>Scenario 4 – Emerging technology leading to</td>
<td>• bi-annual updates from National Grid Partners; and</td>
</tr>
<tr>
<td>and/or environmental event.</td>
<td>significant numbers of people going “off grid”</td>
<td>• during the year, Board strategy sessions considered digital strategy as well</td>
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<tr>
<td></td>
<td></td>
<td>as technology and innovation.</td>
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<tr>
<td></td>
<td>included in the cluster testing of Scenario 9</td>
<td>• Board briefings including a weekly update from the CEO and CFO on our</td>
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<tr>
<td></td>
<td>and 10.</td>
<td>crisis management responses;</td>
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<tr>
<td></td>
<td></td>
<td>• COVID-19 updates on operational issues, people absences and wellbeing to the</td>
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<td>Board; and Finance Committee consideration of liquidity;</td>
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<td></td>
<td></td>
<td>• review of our Business Continuity Planning response and effectiveness of the</td>
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<td></td>
<td></td>
<td>Crisis Management controls to the SEH Committee; and</td>
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<tr>
<td></td>
<td></td>
<td>• briefings from the CCO and finance team on possible financial impacts</td>
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<tr>
<td></td>
<td></td>
<td>including a range of scenario modelling and planning.</td>
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<tr>
<td></td>
<td></td>
<td>• Board briefings reviewing our sustainability metrics to reflect and track our</td>
</tr>
<tr>
<td></td>
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<td>impact and progress;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• disclosures with the TCFD including physical and transitional scenario analysis.</td>
</tr>
</tbody>
</table>
PART 3 - FULL YEAR SALES, PROFIT AND CASH SCENARIOS

FULL PRICE SALES SCENARIOS

In the last thirteen weeks (since our stores reopened) Brand full price sales have been much better than we anticipated, down -2% on last year. Unfortunately, we believe that recent sales are very unlikely to be indicative of our sales performance for the rest of the year. We believe that sales in August and September have been boosted by:

- Far fewer people taking overseas holidays in August
- Cool weather at the end of August and over the bank holiday boosting sales of Autumn weight clothing. This contrasted with a bank holiday heat wave the previous year.

Our new central scenario assumes that sales will be down -12% for the rest of the year. This may sound pessimistic, but we believe that it is realistic for the following reasons:

- Furlough comes to an end in October, with all the economic discomfort that is likely to bring
- The onset of colder weather might worsen the effects of the pandemic and the measures required to contain it
- The recently implemented social distancing rule (the ‘rule of six’), if still in force in December, is likely to depress demand for gifts and clothing associated with traditional Christmas family get togethers

In our downside scenario we assume that full price sales will be down -34% for the rest of the year. This scenario reflects a level of sales decline that seems likely if we experience more widespread lockdown measures and store closures.

The upside scenario assumes full price sales are down -4% for the rest of the year and almost certainly represents the top end of what is achievable with the stock that we have bought for the second half.

<table>
<thead>
<tr>
<th>Full price sales versus last year</th>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>First half</td>
<td>-33%</td>
<td>-33%</td>
<td>-33%</td>
</tr>
<tr>
<td>Second half to date</td>
<td>+4%</td>
<td>+4%</td>
<td>+4%</td>
</tr>
<tr>
<td>Rest of year scenario</td>
<td>-4%</td>
<td>-12%</td>
<td>-34%</td>
</tr>
<tr>
<td>Second half</td>
<td>-2%</td>
<td>-8%</td>
<td>-25%</td>
</tr>
<tr>
<td>Full year</td>
<td>-17%</td>
<td>-20%</td>
<td>-29%</td>
</tr>
</tbody>
</table>

PROFIT BEFORE TAX, CASH AND NET DEBT

Based on these three scenarios for full price sales, the expected profit, surplus cash and net debt at the end of the year are set out below.

<table>
<thead>
<tr>
<th>Profit before tax, cash and net debt</th>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>£370m</td>
<td>£300m</td>
<td>£110m</td>
</tr>
<tr>
<td>Reduction in year end net debt</td>
<td>£477m</td>
<td>£462m</td>
<td>£287m</td>
</tr>
<tr>
<td>Year end net debt15</td>
<td>£635m</td>
<td>£650m</td>
<td>£825m</td>
</tr>
</tbody>
</table>
Looking back

It is important to remember that a different approach to reporting short-term risks is needed than that for longer-term risks. As the time horizon becomes shorter, the level of information a user needs increases. Based on previous investor discussions, useful disclosure is:

- **consistent** and provides the context for changes;
- **relevant** by focusing on the most relevant issues such as liquidity, solvency and operational matters;
- **reflective of timescales** by clarifying timing of triggers to the risks and their run-off;
- **focused on impacts** by providing information on impacts, changes to risks and their mitigation, and changes to risk appetite; and
- **detailed** by contextualising risks by geographies, operations or segments.

Two examples of interesting disclosure in this area, included in the June reports, were prepared by Informa and G4S in their 2019 Annual Reports.

Recent developments

‘COVID-19’, or ‘pandemic’ has been included by almost all companies as a new primary or emerging risk (refer to Dixons Carphone). For most entities, this risk is considered to be pervasive and significant at least in the short term. However, whilst this approach draws attention to the risk, it can reduce visibility around how individual components of the risk unwind – which will become increasingly important as we begin to move to a post-COVID-19 situation.

Some companies have adopted an alternative approach. Instead of disclosing COVID-19 itself as a primary or emerging risk, some companies have disclosed the effects the pandemic has had on their other risks and how the ‘rating’ of these risks has changed since their previous reporting (refer to Land Securities and U + I).

A ‘blended’ approach in which a new COVID-19 risk has also been identified with other risks tailored to take the effect of COVID-19 into account could also be useful.
Looking forward

Disclosing the effects of the components of COVID-19 on other risks, rather than as a separate risk, may provide more useful information to users. COVID-19 was an event that triggered a cascade of other risks. As we move into the longer term, the longevity and nature of impact on the individual components of risk will be different. Therefore, what becomes important is understanding the impacts, the actions and the mitigations at this component level rather than ‘pandemic risk’ as an individual risk. The component risks associated with it (government regulation, lockdowns, effect on employees, securing funding and financing and the general economic impact, for instance) may extend to the medium and longer term. Hence, instead of an entity removing a principal (or emerging) risk, the explanation of the risk can be tailored instead.

Reporting on risks, uncertainties and scenarios

Investors and other stakeholders are increasingly looking for information from companies about how they will evolve, adapt and respond to changes in the external business environment. The risks and uncertainties that could impact a company’s business model, strategy and viability will vary over the short, medium and longer term. Given the significant reassessment many companies are making to their longer-term business model and strategy, risk, uncertainty and scenario reporting is likely to become even more important.

If you would be interested in finding out more about the Lab’s current project on the reporting of risks, uncertainties and scenarios (and possibly take part) you can find details on the Lab’s section of the FRC’s website.
What is useful?
Dixons Carphone has chosen to identify COVID-19 (or pandemic) as a risk on its own, but has discussed its impact, management and change since the last report (in this instance, it is a ‘new’ risk).

COVID-19 RISK ASSESSMENT

We have set out below the principle risks we face as a business related to Covid-19 and how we are mitigating these.

<table>
<thead>
<tr>
<th>Business risk</th>
<th>Mitigating factor/response</th>
<th>Changes</th>
</tr>
</thead>
</table>
| Planning delays: continued deferment of planning consultations and committees delaying project progress and monetisation | • Virtual planning consultations and committees will lead to decision-making by councils  
• New Planning Director and Community Engagement Manager to support planning success | Further contingency for planning delay incorporated in future internal timelines  
Removed future guidance for the short-term in response to uncertainty |
| Construction delays: closure of sites and related delays to project progress / monetisation | • All our sites remained open during Covid-19  
• Urgent need for homes and mixed-use schemes means construction is an essential service  
• Schemes where planning has been achieved will be prioritised | Earlier engagement internally and with third-parties to agree strategy and acceleration processes in the instance of site closures or social distance working to ensure minimal disruption |
| Reduced new business opportunities: challenges in strengthening development and trading pipeline | • Continued focus on opportunistic acquisitions, with strong potential for value creation  
• Structural demand for mixed-use schemes remains; we have a strong existing pipeline to deliver, with short and long-term gains  
• Disruption presents opportunity – focused new business team and widened capital partner discussions to build scale | Widened team responsibility and accountability for new business oversight and generation to ensure access to new opportunities, whilst increasing focus on nurturing trusted relationships |
What is useful?
Land Securities has chosen to discuss the impacts of COVID-19 in the context of the previously identified principal risks.

The change in the significance of the risk is considered, and the responsible executive, as well as Key Risk Identifiers (KRIs), are identified.
The Lab has published reports covering a wide range of reporting topics.

Reports include:

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