Financial Reporting Council

Financial Reporting LAB

October 2020

Going concern, risk and viability

COVID-19 and Reporting in times of uncertainty - *a look forward*

Contents

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

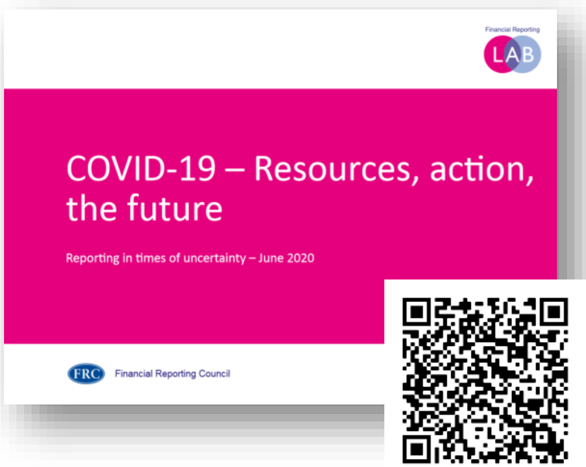
In response to the COVID-19 pandemic, and based on discussions with investors, the Lab issued an infographic in March and two reports (and related summaries): Going concern, risk and viability and Resources, action the future in June 2020 relating to Reporting in times of uncertainty.

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
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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.

Looking back

Recent developments

Looking forward

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

Going concern 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.

Going concern and viability

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."

Going concern and viability

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.

Land Securities Group plc
Annual Report 2020
page 57

Going concern

The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. This confirmation is made after having reviewed assumptions about future trading performance, valuation projections, capital expenditure, asset sales and debt requirements contained within the Group's current five-year plan. The Directors also considered potential risks and uncertainties in the business, credit, market and liquidity risks, including the availability and repayment profile of bank facilities, as well as forecast covenant compliance. Further stress testing has been carried out to ensure the Group has sufficient cash resources to continue in operation for at least the next 12 months following the recent deterioration in cash collections as a result of Covid-19. This stress testing included extreme downside scenarios with materially reduced levels of cash receipts over this period. Based on the above, together with available market information and the Directors' knowledge and experience of the Group's property portfolio and markets, the Directors continue to adopt the going concern basis in preparing the accounts for the year ended 31 March 2020. See note 1 of the financial statements for further details.

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.

The financial planning process considers the Group's profitability, capital values, gearing, cash flows and other key financial metrics over the projection period. These metrics are subject to sensitivity analysis, in which a number of the main underlying assumptions are flexed and tested to consider alternative macro-economic environments. Additionally, the Group also considers the impact of potential structural changes to the business in light of varying economic conditions, such as significant additional sales and acquisitions or refinancing. These assumptions are then adapted further to assess the impact of considerably worse macro-economic conditions than are currently expected, which forms the basis of the Group's 'viability scenario'.

Given the significant impact of Covid-19 on the macro-economic conditions in which the Group is operating, additional stress-testing has been carried out on the Group's ability to continue in operation under extremely unfavourable operating conditions, including a scenario in which we are unable to collect any rent for an extended period of time. While the assumptions we have applied in these scenarios are possible, they do not represent our view of the likely outturn. However, the results of these tests help to inform the Directors' assessment of the viability of the Group.

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.

Key metrics Table 29

	31 March 2020	Viability scenario 31 March 2025
Loan-to-value ratio	30.7%	41.3%
Adjusted net debt	£3,926m	£4,840m
EPRA net assets	£8,751m	£6,636m
Available financial headroom	£1,163m	£(2,983)m

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.

SCENARIO PLANNING TO STRESS TEST FINANCING

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:

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

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

ASCENTIAL Interim Results 2020 / 43

Ascential plc
Interim results 2020 presentation
slide 43

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.

COVID-19 impact
The Group's 2021 annual budget was significantly impacted by the COVID-19 pandemic. The Group announced measures to support customers throughout the period where retailers were required to close their showrooms. In addition to these measures, payment terms for March 2020 services were extended. Subsequently, additional allowances were made for retailer customers, including offering a 25% discount for the month of June 2020 before returning to full prices in July 2020. The impact of these measures has been overlaid on the three-year forecast to March 2023.

Assessment of viability
The output of the Group's strategic and financial planning process detailed previously reflects the Board's best estimate of the future prospects of the business. To make the assessment of viability, however, additional scenarios have been modelled over and above those in the ongoing plan, based upon a number of the Group's principal risks and uncertainties which are documented on pages 54 to 57. These scenarios were overlaid into the plan to quantify the potential impact of one or more of these crystallising over the assessment period.

While each of the Group's principal risks has a potential impact and has therefore been considered as part of the assessment, only those that represent severe but plausible scenarios have been modelled through the plan. These were:

Scenario 1: Pandemic impact
Link to risk – COVID-19, Economy, market and business environment and changing consumer behaviour.
The current COVID-19 global pandemic and the impact to the UK economy has been considered. Government restrictions resulted in the temporary closure of retailers and impacted on consumer buying behaviour through April and May 2020. Through the lockdown period the Group provided free advertising for retailers to help customers and maintain live stock on site.

In this scenario we assume that after the lessening of lockdown restrictions, a second wave returns resulting in a second lockdown that lasts for a five-month period from November to March 2021. Through this period, we have assumed that retailer advertising is once again made free of charge, resulting in a 99% decrease in Retailer revenue across those months. We have also assumed a 75% decrease in Consumer Services revenue and an 85% decrease in revenue from Manufacturer and Agency.

Following this period it is assumed that there is recovery and the Group reverts to the normal charging model, however there is a negative impact on retailer numbers. Cost savings in the year have been assumed mainly through a reduction in marketing spend as well as applicable cost saving measures.

Scenario 2: Data breaches
Link to risk – COVID-19, IT systems and cyber security, Brand.
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 the maximum fine, coupled with a significant level of reputational damage to the Group's brand. This is in addition to the current impact of COVID-19, with lockdown restrictions eased in June 2020 and full charging commencing in July 2020.

As a result of the data breach, a severe reduction in revenue was modelled through Trade, resulting in an initial 50% decrease in revenue driven by lost retailers. An initial 40% decrease in Consumer Services and a 55% 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 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 £185.9m raised, or £183.2m net of fees incurred.

The scenarios also consider the biannual covenants attached to the Group's Syndicated RCF ensuring thresholds are met. The scenarios are hypothetical and severe for 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 a typical month where these measures are implemented the Group would record an operating loss of £4m – £7m. Given the high level of cash conversion the cash burn in such a month would be similar.

Lockdown restrictions were eased through June 2020, however until a vaccine or cure for COVID-19 is found there is a risk that these strict measures are reintroduced.

The sensitivity scenario 1 explores such an outcome but given the unprecedented nature of the circumstances, a more extreme scenario may exist. In such a scenario the Group may not implement customer discounts to the same level and take more extreme cost saving levels in order to preserve profitability.

Viability statement
Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending March 2023.

Going concern
The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in note 1 to the financial statements.

The Company's Strategic report, set out on pages 2 to 59, was approved by the Board on 25 June 2020 and signed on its behalf by:

Nathan Coe
Chief Executive Officer
25 June 2020

Auto Trader Group plc
Annual Report 2020
page 59

What is useful?

Auto Trader clearly explains the scenarios utilised to determine viability. These scenarios have been linked to and discussed 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.

Nedbank Ltd
Integrated Report 2019
page 36

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.

Scenarios for the short to medium term

In the context of challenging macroeconomic dynamics we have created scenarios that represent the underlying assumptions for our three-year planning (2020 to 2022), stress testing and communication to the investment community.

These scenarios were set in January 2020 and formed the base case of our 2020 financial guidance, which is no longer valid.

Given the developments in March 2020 around lower oil prices and the emerging and unknown impact of the Covid-19 pandemic on both global and local economic growth, we have updated our January 2020 base case scenario titled: 'More of the same' with a new base case scenario titled: 'Managing through the Covid-19 crisis' based on our revised April 2020 economic forecasts. We additionally introduced a severe stress scenario (should the crisis not be contained in a reasonable period, both globally and locally in SA and the rest of Africa).

January 2020 scenarios

'More of the same' scenario - January 2020

The January 2020 base case scenario formed the foundation of our initial financial planning. In this scenario the pace of structural reforms remains slow. The fight against corruption continues, but ideological and other divisions within the ruling ANC party persists, undermining policy clarity and decisive action on key regulation, legislation and infrastructure. While some concessions are made towards allowing greater private sector involvement in energy generation and other systemically important infrastructure markets, the status quo largely persists. Electricity constraints, coupled with weak government finances and persistent policy uncertainty, keep confidence fragile, fixed-investment activity contained and job creation limited. A Moody's downgrade of the SA sovereign-credit-risk rating to subinvestment grade was expected, and materialised in March 2020. Its impact was largely discounted as CDS spreads and bond yields already traded above countries with similar ratings. Its impact is largely discounted and investors seek higher yields. However, sentiment swings between risk-on and risk-off conditions, while a Chinese economic recovery is expected in H1 2020 post the Covid-19 impact. Economic growth in SA recovers only slowly but remains at generally weak levels of less than 1,5% per annum over the next three years, primarily given the shortage of electricity supply and loadshedding at stage 1 and 2 for the next 18 months. These subdued demand conditions assist to contain inflation, which is forecast to hover around the 4,5% mid-point of SARB's target range. While scope for further monetary easing exists, these are balanced by adverse consequences of heightened fiscal and ratings risks, keeping the rand vulnerable to sudden changes in foreign investor sentiment. Interest rates are assumed to remain steady at current lower levels throughout the forecast period (with some probability of further decreases), providing some relief to indebted consumers.

'Seeing light' scenario - January 2020

In this January 2020 scenario government embraces the need for structural reforms and policy certainty. The state not only presents a pragmatic strategy for structural reform but starts implementation in a determined, systematic and pragmatic manner, with misplacement and other costs well managed and contained. Confidence improves and fixed-investment activity gradually picks up around the second half of 2021, resulting in some recovery in job creation. As the economy slowly gathers some pace, government finances strengthen moderately, and Moody's maintains the country's investment grade credit risk rating. The rand is supported by greater investor confidence and helps to keep inflation in check, creating some scope for lower and steady interest rates. Credit demand recovers as household and business confidence and finances improve, and defaults decrease. Globally, trade wars subside and commodity prices gain momentum, while we experience risk-on conditions and containment of Covid-19. (This scenario is no longer relevant given the impact of the Covid-19 crisis.)

March 2020 scenarios

'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.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process. The process includes financial forecasting, a robust risk management assessment, regular budget reviews as well as scenario planning incorporating industry trends, considering any emerging issues and economic conditions. Our business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

Utilising our established top-down/bottom-up risk management process, the principal risks facing the Company as described on pages 23 – 25 are identified, monitored and challenged. Over the course of the year, the Board has considered the principal risks shown in the table below in detail. The Board considered the preventative and mitigating controls and risk management actions in place and discussed the potential financial and reputational impact of the principal risks against our ability to deliver the Company's business plan. These factors were also carefully reassessed in light of the COVID-19 factors.

The assessment of the potential impact of our principal risks on the longer-term viability of the Company tests the significant solvency and liquidity risks involved in delivering our business objectives and priorities. After careful consideration of the uncertain and dynamic COVID-19 events, including reviewing the fast-changing external factors and their cumulative impact in the medium and long term, and other considerations including: our long-term business model, high-quality, long-term assets and stable regulatory arrangements; the Board's stewardship responsibilities; and the Company's ability to model a range of severe but plausible reasonable worst-case scenarios, the Board concluded that it remains appropriate to consider a five-year timeframe over which we should assess the long-term viability of the Company.

Operational impacts

Scenario 1 – A significant cyber-attack.

Scenario 2 – Significant supply disruption event occurring in the US leading to loss of licence.

Scenario 3 – A catastrophic gas pipeline failure in the US.

Scenario 4 – Emerging technology leads to significant numbers of people going 'off grid'.

Scenario 5 – Significant physical damage due to climate change events in the US and the UK along with reputational damage through failure to adjust our business model to meet customer expectations.

Performance impacts

Scenario 6 – The breach of personal data information.

Scenario 7 – The result of a 'Hard Brexit' in the UK.

Scenario 8 – A poor outcome to RIIO-2 negotiations.

Cluster impacts

Scenario 9 – A significant supply disruption event in the US leading to loss of licence coupled with a 'Hard Brexit' and challenging RIIO-2 results in the UK.

Scenario 10 – Failure to adequately respond to the COVID-19 pandemic including triggering a gas pipeline failure and supply disruption in the US leading to loss of licence coupled with challenging RIIO-2 results in the UK.

The following factors have been taken into account in making this decision:

- we have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made;
- in order to test the five-year period, the Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five to ten-year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period; and
- each principal risk was considered for inclusion within the testing and, where appropriate, a reasonable worst-case scenario was identified and assessed for impacts on operations and/or financial performance over the five-year assessment time period as detailed below.

In addition to testing individual principal risks, the impact of a cluster of the principal risks materialising over the assessment period was also considered. COVID-19 and our management of the issues the business faces during the pandemic, was also noted as an emerging risk that resulted in the addition of a new principal risk. Recent external developments such as the Northeast Supply Enhancement (NESE) Pipeline and events in the downstate NY gas business regarding National Grid's licence and the ability to provide continuing supply to our customers were also considered along with the ongoing regulatory environment in our operating jurisdictions. We also carefully considered the impact of our response to COVID-19 on our business plans and financial models. In the opinion of the Board, the reasonable worst-case scenarios represent the estimated cumulative impact with principal risk clusters.

The reputational and financial impacts for each scenario were considered (to the nearest £500 million). The principal risk relating to leadership capacity was not tested as the Board did not feel this would threaten the viability of the Company within the five-year assessment period. Further, considering the breadth of ramifications COVID-19 may have across different areas of the Company and its consequential power to exacerbate the negative consequences of other principal risks, any potential undesired outcome of COVID-19 was considered in aggregation with other principal risks in the scenarios.

The Board assessed our reputational and financial headroom and reviewed principal risk testing results against that headroom. The testing of risk groups and clusters also included an assessment of the impact upon the business plan, as adjusted for expected impacts of COVID-19. No principal risk or cluster of principal risks was found to have an impact on the viability of the Company over the five-year assessment period. Preventative and mitigating controls in place to minimise the likelihood of occurrence and/or financial and reputational impact are contained within our assurance system.

In assessing the impact of the principal risks on the Company, including our two new principal risks of Climate Change and Response to COVID-19, the Board has considered the fact that we operate in stable markets and the robust financial position of the Group, including the ability to sell assets, raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund the licensed activities of National Grid Gas plc, National Grid Electricity System Operator Limited and National Grid Electricity Transmission plc.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on pages 22 – 25 the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to May 2025.

National Grid plc
[Annual Report 2019/2020](#)
page 26

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.

Financial Reporting LAB

Principal risk	Viability scenario	Matters considered by the Board
Major cyber security breach of business, operational technology and/or CNI systems/data.	**Scenario 1** – A significant cyber attack.	**The Board received updates on cyber security in:** • March 2019; • July 2019; • December 2019; and • March 2020.
Failure to predict and respond to a significant disruption of energy that adversely affects our customers and/or the public.	**Scenario 2** – An extended outage in the US. Included in the cluster testing of **Scenario 9 and 10**.	**Two Board Strategy sessions held during the year:** • bi-annual overviews; • review of the gas business strategies; • external reviews of operational issues within the US gas business; and • review of the sequence of events on Friday 9 August.
Catastrophic asset failure resulting in a significant safety and/or environmental event.	**Scenario 3** – A gas transmission pipeline failure in the US. Included in the cluster testing of **Scenario 10**.	• the Board reviews the current safety performance of the Company at each meeting; • safety is a fundamental priority and is looked at in detail by the Safety, Environment and Health Committee (SEH Committee) who have delegated authority from the Board; and • our Electricity and Gas Engineering Reports to the SEH Committee also provide progress updates on our asset management improvements.
Failure to adequately identify, collect, use and keep private the physical and digital data required to support Company operations a...	**Scenario 5** – The breach of personal data information.	• annual updates on the Company's information systems.
Failure to bui... leadership c... capacity (inc... planning) rec... our vision an...		
Failure to deliver any customer, investor and wider stakeholder propositions due to increased political and economic uncertainty.	**Scenario 6** – The state ownership of the energy sector in the UK.	**The Board received updates and reviews of:** • the impact of Hard Brexit and access to the Internal Energy Market; • proposed response to the Labour Party's proposal to nationalise UK's assets; • implementation of measures to strengthen ability to obtain fair price for UK assets if potential threat of state ownership materialised; and • UK and US regulatory strategies.
Failure to influence future energy policy and secure satisfactory regulatory agreements.	**Scenario 7** – A poor outcome of RIIO-2 negotiations. Included in the cluster testing of **Scenario 9 and 10**.	**The Board received updates and reviews of:** • US regulatory strategy; • UK regulatory strategy; • UK ESO regulatory strategy; • key regulatory policy issues for 2019/20; and • RIIO-2.
Failure to respond to the asset failure resulting in a significant safety and/or environmental event.	**Scenario 4** – Emerging technology leading to significant numbers of people going 'off grid'.	• bi-annual updates from National Grid Partners; and • during the year, Board strategy sessions considered digital strategy as well as technology and innovation.
Failure to respond to disruptive factors caused by the COVID-19 pandemic resulting in an impact on our networks, our people and our financial targets.	Included in the cluster testing of **Scenario 9 and 10**.	• Board briefings including a weekly update from the CEO and CFO on our crisis management response; • COVID-19 updates on operational issues, people absences and wellbeing to the Board; and Finance Committee consideration of liquidity; • review of our Business Continuity Planning response and effectiveness of the Crisis Management controls to the SEH Committee; and • briefings from the CFO and finance team on possible financial impacts including a range of scenario modelling and planning.
Failure to respond to physical and transitional impacts of climate change and demonstrate our leadership within the energy sector.	N/A	• Board briefings reviewing our sustainability metrics to reflect and track our impact and progress; and • disclosures with the TCFD including physical and transitional scenario analysis.

National Grid plc
Annual Report 2019/2020
page 27

What is useful?
National Grid provides further information about how each identified principal risk was considered as part of a viability scenario (or where principal risks were included in a scenario as part of a cluster). In addition, the company indicates how the risk and related scenario has been considered by the Board throughout the period.

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Next plc
Half Year Results July 2020
pages 40 and 41

What is useful?
Next outlines the scenarios considered and the expected impact on sales and performance, and other measures.

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.

Full price sales versus last year	Upside	Central	Downside
First half	- 33%	- 33%	- 33%
Second half to date	+4%	+4%	+4%
Rest of year scenario	**- 4%**	**- 12%**	**- 34%**
Second half	- 2%	- 8%	- 25%
Full year	- 17%	- 20%	- 29%

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.

Profit before tax, cash and net debt	Upside	Central[14]	Downside
Profit before tax	**£370m**	**£300m**	**£110m**
Reduction in year end net debt	£477m	£462m	£287m
Year end net debt[15]	£635m	£650m	£825m

Financial Reporting LAB

Risk reporting

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.

Risk reporting

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.

Risks and potential impacts

1 Covid-19		Risk owner: Group Chief Executive	Risk category: Strategic
What is the risk? Covid-19 has had an impact across the Group's business in every operational function and geography in order to comply with government instructions.	**What is the impact?** – Reduced revenue and profitability – Deteriorating cash flow – Colleague / customer illness or loss of life	**How we manage it** A range of initiatives grouped under three 'Big Priorities' – Keeping our Colleagues and Customers Safe, Helping our Customers and Securing Our Future.	**Changes since last report** This risk is new.

Dixons Carphone plc
Annual Report 2019/2020
page 20

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

U+I

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

Business risk	Mitigating factor/response	Changes
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 visibility • 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

U and I Group plc
COVID 19 Risk assessment report
pages 1 -3

What is useful?
U + I released a separate document, on the date of the preliminary results release, providing an update to its principal risks due to COVID-19 and the related mitigations and changes.

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.

Land Securities Group plc
[Annual Report 2020](#)
page 52

Our principal risks and uncertainties

continued

1. Customers

Structural changes in customer and consumer expectations leading to a change in demand for space and the consequent impact on income.

Executive responsible: Colette O'Shea

Example KRIs
- UK net retail openings and shopping centre vacancy rates (external metric)
- Amount of people visiting our assets
- Percentage of lease expiries over our five-year plan
- Void rates across our portfolio
- Customer credit risk profile and tenant counterparty risk
- Customer retention
- Like for like rental income metrics
- Customer and space churn

Mitigation
- Our Customer Relationship Management processes actively monitor our customer base and performance
- We have a robust credit policy and process which defines what level of credit risk we will accept
- Our Property Committee reviews customers at risk and agrees the best plan of action, as well as monitoring online sales trends
- The monthly management accounts review lease expiries, breaks, re-gears and compare new lettings against estimated rental value
- We measure footfall and retail sales at our shopping centres to provide insight into consumer trends
- We regularly measure customer satisfaction across our retail and office customer base

Change in year prior to Covid-19

We were already operating in a tough retail environment, with a number of company voluntary arrangements (CVAs) throughout the year, and like-for-like footfall and retail sales declining. We were monitoring our retailers at risk of CVA and looking at more flexible leasing options in retail. The office market had remained resilient through 2019. We elevated this risk last year to reflect the deterioration in the retail market.

Covid-19 impact: change since Dec-19

The Covid-19 outbreak is a very challenging time for many businesses and, in particular, some of our retail and leisure customers. We are regularly communicating with our customers and are engaged in conversations about how we can support them through this difficult time. We continue to closely monitor the cash collections of rents across the whole portfolio and we have seen a material reduction in cash collections in late March 2020. This indicates a likely increase in business failures and we are closely monitoring any customers in financial distress. We expect to see greater non-payment of rent as we move through 2020.

We have established a support fund to provide up to £80m of rent relief for customers – around £15m of this fund will support our F&B customers and the remaining £65m will be allocated on a case-by-case basis to small- and medium-sized businesses.

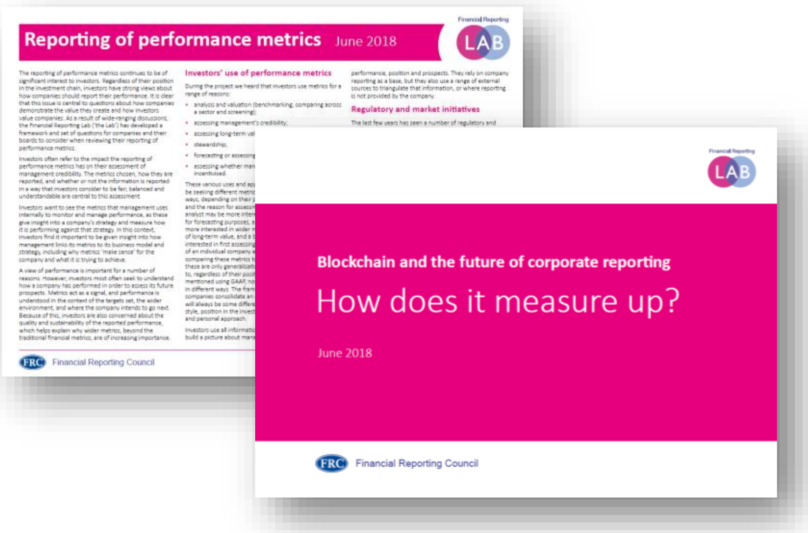
Opportunity

Enhance and maintain our position as the partner of choice for our customers by better understanding their needs.

We are assessing plans for significant mixed use developments on our suburban London retail sites where we see opportunities to create value.

The Lab has published reports covering a wide range of reporting topics.

Reports include:



Reports and information about the Lab can be found at:

https://www.frc.org.uk/Lab

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