



Financial Reporting Council

The Financial Reporting Review Panel highlights challenges in the reporting of principal risks and uncertainties

01 February 2011

FRRP PN 130

The Financial Reporting Review Panel of the FRC is concerned about how companies are reporting the principal risks and uncertainties facing their business.

The Companies Act 2006 requires directors' reports to contain a business review which must itself contain a description of the principal risks and uncertainties facing the company. The Act states that the purpose of the business review is to inform members of the company and help them assess how the directors have performed their statutory duty to promote the success of the company.

The business review falls within the remit of the Panel, which has commented on a number of occasions on the issues it has encountered in assessing whether directors' reports comply with this requirement of the Act. In particular, the Panel has challenged a number of companies where:

- The directors' report does not clearly identify which risks and uncertainties the directors believe to be the principal ones facing the business.
- A long list of principal risks and uncertainties is given and the list raises a question as to whether all the risks and uncertainties on the list are actually principal ones.
- The description given of a risk or uncertainty is in generic terms and it is not clear how that risk or uncertainty applies to the company's circumstances.
- The disclosure is of a risk framework rather than of the risks or uncertainties themselves.
- The principal risks and uncertainties disclosed are not consistent with other information given in the report and accounts.
- The directors' report does not state how the company manages its principal risks and uncertainties. As the purpose of the business review is to inform members of the company and to help them assess how the directors have performed their duty to promote the success of the company, the Panel believes that a Board should state how the company manages its principal risks and uncertainties.

The Panel encourages boards of directors to consider their disclosure of the principal risks and uncertainties facing their businesses by considering the following questions:

1. Do the disclosures state clearly which are the principal risks and uncertainties facing the business?
2. Are those risks and uncertainties described as principal the main risks and uncertainties that currently face the business? For example, have the risks and uncertainties listed as principal been the subject of recent discussions at board or audit committee meetings? Are there risks which have been the subject of such discussions which should be considered as principal?
3. Is the description of each principal risk and uncertainty sufficient for shareholders to understand the nature of that risk or uncertainty and how it might affect the company?
4. Are the principal risks and uncertainties described in a manner consistent with the way in which they are discussed within the company?
5. Are the principal risks and uncertainties shown consistent with the rest of the report and accounts? Are there risks and uncertainties on the list which

are not referred to elsewhere or are there significant risks and uncertainties discussed elsewhere which do not appear on the list?

6. Is there a description, in the directors' report, or elsewhere in the report and accounts and explicitly cross-referenced from the directors' report, of how the company manages each of the principal risks and uncertainties?

Bill Knight, Chairman of the Panel, said:

“Any board should be able to describe in their accounts, simply and clearly, the principal risks and uncertainties facing the company. Many boards do this, but too many do not. Boards who retreat behind boilerplate give the impression that they have not themselves understood the risks they face.”

Notes to Editors

1. The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.
2. The Role of the Panel is to examine the annual accounts of public and large private companies to see whether they comply with the requirements of the Companies Act 2006 including applicable accounting standards. Following implementation of the Accounting Regulation (EC) No 1606/2002, this may mean compliance with UK or International Financial Reporting Standards.
3. Where breaches of the Act are discovered the Panel seeks to take corrective action that is proportionate to the nature and effect of the defects, taking account of market and user needs. Where a company's accounts or directors' report are defective in a material respect the Panel will, wherever possible, try to secure their revision by voluntary means, but if this approach fails the Panel is empowered to make an application to the court under section 456 of the Act for an order for revision. To date no court applications have been made.
4. The requirements regarding the business review are contained in section 417 of the Act.
5. The chairman of the Panel is Bill Knight and the deputy chairmen, Ian Wright and David Lindsell. There are currently 26 other Panel members drawn from a broad spectrum of commerce and the professions. Individual

cases are normally dealt with by specially constituted Groups of 5 or more members.

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