RISK SNAPSHOT

Fit for the future?

Analysis of the scope, structure and content of a sample of longer-term viability statements published in 2016

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Contents

1. Introduction

Listed companies may have many stakeholders, and it is the duty of the board of directors to protect their interests. In particular, stakeholders are entitled to receive information about the current financial status and anticipated future prospects of the company. The UK Financial Reporting Council (FRC) is the regulator that ensures companies provide the required assurance to stakeholders about their future financial status, success and sustainability.

The FRC publishes the UK Corporate Governance Code (formerly known as the Combined Code) together with associated guidance for UK companies subject to the requirements of the Code. In 1999 it published specific guidance on risk management and internal control which became known as the 'Turnbull Report'. This was later updated in 2005.

The latest version of the risk management and internal control guidance, published in 2014, is the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. This guidance is referred to in this publication as the 'FRC risk guidance'. It contains additional requirements related to risk management, internal control and the adoption of the 'going concern' basis of accounting and specifically the requirement to produce a 'longer-term viability statement'.

The requirement to confirm that the company is a 'going concern' has been enshrined within UK corporate governance for some time. However, since September 2014, listed companies are now required to confirm that they have assessed their prospects further into the future. This requirement to report on future prospects is embedded in the obligation to produce a 'longer-term viability' statement. Usually, this statement covers at least the next three years and sometimes longer.

The importance of such a statement is that it assures shareholders and other stakeholders that the company believes that it will remain viable for at least the period it has selected. Shareholders, suppliers, contractors, customers and others can then decide how much exposure they are willing to accept (or risk they are willing to take) regarding the future success of the company.

This report analyses a sample of 16 of the longer-term viability statements that have been published, and proposes a framework for the future construction of these statements. It also considers the role of risk professionals in supporting their employer and/or clients in planning and undertaking the necessary board discussion of risk and risk management as a precursor to the development of these statements.

IRM proposes to undertake further reviews of published longer-term vailability statements. In particular, we will look to compare future statements issued by the same companies in order to assess whether the statements produced are dynamic and reflect the changing business and commercial environment within which all companies operate.

2. Review of UK corporate governance requirements

This report is not intended to provide an overview of all of the requirements of the UK corporate governance code, nor is it a detailed analysis of all of the requirements of the risk guidance published by the FRC in September 2014 (see note for full reference). The report is specifically concerned with the production of a longer-term viability statement, although the production of this statement needs to be viewed within the context of the broader risk management obligations placed on a company that is subject to the requirements of the code.

The FRC risk guidance explains the risk management responsibilities of the board and these can be summarised, as follows:

1. **Risk management processes**
   - ensure that risk management (RM) is incorporated within normal processes
   - identify the principal risks facing the company
2. **Principal risks and risk appetite**
   - assessment of risks to the business model and strategy
   - risks the organisation is willing to take or “risk appetite”
3. **Risk culture and risk assurance**
   - risk culture is embedded throughout the organisation
   - adequate RM and assurance discussions take place at board level
4. **Risk profile and risk mitigation**
   - the risk profile of the company is kept under review
   - measures to manage or mitigate the principal risks are taken
5. **Monitoring and review activities**
   - monitoring and reviewing risk management is undertaken
   - monitoring and review is on-going and not just annual
6. **Risk communication and reporting**
   - internal and external risk management communication takes place
   - necessary risk information is communicated to and from the board

In summary, the FRC risk guidance requires that greater attention needs to be paid to the risk management process, profile, principal risks and mitigation; the business model, strategy, risk appetite, culture and reporting; as well as the longer-term viability, board discussion and embedding risk management throughout the organisation.

Producing the longer-term viability statement should improve the quality of discussion at the board on risk management and internal control. This will elevate the importance of risk management in the company.

Note: Financial Reporting Council (September 2014) ‘Guidance on Risk Management, Internal Control and Related Financial and Business Reporting’

3. Framework for longer-term viability statements

The 16 longer-term viability statements selected have been analysed and evaluated against the following 10 headings, which IRM proposes as a suitable framework for the future construction of these statements.

1. **Code provision**
   Explicit reference to the code provisions and the obligation to produce the longer-term viability statement

2. **Scope of statement**
   Context for the company, including external factors and other governance obligations, the scope of the statement and links to integrated reporting

3. **Timescale selected**
   Timescale selected and the, factors that justify the selection of the timescale; comments on alignment of the timescale to business processes

4. **Robust risk assessment**
   Confirmation that a robust risk assessment has been undertaken, including consideration of risks that could occur in combination

5. **Principal risks**
   Link to the principal risks and/or particular risks, including information and comments on the relevance of risks of particular concern

6. **Key assumptions**
   Description and relevance of the key assumptions and/or business factors taken into account when preparing the viability statement

7. **Scenario testing**
   Description of stress testing and scenario testing undertaken in the evaluation of the effectiveness of existing controls and risk mitigation

8. **Specific negative circumstances**
   Description and relevance of any specific negative circumstances, consequences, issues or difficulties considered, including banking covenants

9. **Board discussion**
   Nature of the evaluation undertaken by the board to confirm that the viability statement is valid, including reference to the successful delivery of strategy

10. **Reasonable expectation**
    Confirmation of reasonable expectation that the company will continue in operation and meet its liabilities as they fall due over the period

4. Extracts from published statements

This report does not offer a critical analysis of the published longer-term viability statements that are available. The intention is to provide examples of good practice under each of the 10 headings of the proposed framework set out on page 6. For each of the 10 headings, three examples are provided to illustrate the different ways in which companies have provided information relevant to that component of the statement.

1. Code provision

In order to provide context for the longer-term viability statement, many companies have provided explicit reference to the code provisions and the obligation to produce the statement. In several cases, this is linked to the related statement that provides justification for adopting the 'going concern' basis of accounting.

Intu Properties plc
In accordance with provision C.2.2 of The UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than that required in adopting the going concern basis of accounting.

Royal Bank of Scotland Group
In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the viability of the bank taking account of the current position of the bank, the Board's assessment of the bank's prospects, and the bank's principal risks.

Given the bank is subject to regulatory oversight, we are also required to meet regulatory standards of capital and liquidity adequacy and stress test thresholds under severe but plausible conditions, which have also informed our assessment.

GlaxoSmithKline plc
In accordance with provision C.2.2 of the 2014 revision of the Code, GSK has assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Directors' assessment has been made with reference to our current position and prospects, our strategy, the Board's risk appetite and our principal risks and how these are managed.

2. Scope of statement

As well as providing context for the company, several statements also include information on external factors and other governance obligations. Many companies outlined the scope of the longer-term viability statement and provided links to integrated reporting, where that approach had been adopted.

Amec Foster Wheeler plc
In making this assessment the directors have taken into account the Company's current trading performance and prospects, the stated strategy concerning the review of underperforming assets and the board's appetite for risk. The Company refinanced its banking facilities in early March 2016 and the assessment confirms that we are compliant with the covenants and undertakings contained within these new facilities over the three-year period.

easyJet plc
In making their assessment, the Directors took account of easyJet's current financial and operational positions and contracted capital expenditure. They also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties and the likely degree of effectiveness of current and available mitigating actions.

Serco Group plc
Assessing the longer-term viability of any company at this early stage of new strategy implementation is inevitably a challenge, particularly given the recent history of the Group as explained in previous shareholder communications (including the Prospectus issued by the Company in relation to the Rights Issue) and the onerous contracts that exist within the Group.

3. Timescale selected

One of the key challenges for companies producing a longer-term viability statement is to decide the period against which the company would report on its longer-term viability. All companies identified the timescale that they had selected and many companies provided information on the factors that justified the timescale. In many cases, information was provided on the alignment of the selected timescale to other business processes. In all of the published statements selected for this report, the term selected was either three or five years.

Unilever

A three-year period is considered appropriate for this assessment because:

- it is the period covered by the strategic plan; and
- it enables a high level of confidence, even in extreme adverse events, due to a number of factors such as the Group has considerable financial resources together with established business relationships with many customers and suppliers in countries throughout the world
- high cash generation by the Group's operations
- flexibility of cash outflow including significant marketing and capital expenditure; and
- the Group's diverse product and geographical operations.

GlaxoSmithKline plc

The three-year review considers our existing strategy and the associated principal risks that underpin our current three-year plan, which the Directors review at least annually. The Directors believe that a three-year assessment is most appropriate as it aligns with our normal and well established three-year business planning processes. This three-year period balances the long term nature of investments in the pharmaceutical industry with a realistic assessment of the variability of the key drivers of near term business performance as well as external factors and regulation impacting the business. It also reflects our view on access to capital markets and funding requirements as projected within this analysis.

Intu Properties plc

The Directors have assessed the prospects of the Company over a longer period than that required in adopting the going concern basis of accounting. Based on the result of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years. This period is considered appropriate because of the combination of the following factors:

- the Group's strategic plan covers 10 years, with a greater degree of detail and rigour applied to the first five years
- the Group's weighted average unexpired lease term, which at 31 December 2015 was 7.9 years
- the Group's weighted average debt maturity, which at 31 December 2015 was 7.8 years
- the term of the Group's Revolving Credit Facility, which currently extends to 2020

4. Robust risk assessment

The requirement in the FRC risk guidance to undertake a robust risk assessment was confirmed in many of the statements reviewed. Some companies specifically stated that they had undertaken a 'robust' risk assessment, whereas other companies explicitly explained that the risk assessment included consideration of risks that could occur in combination.

Unilever

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks and the ways they are being managed and mitigated by a wide range of actions are summarised.

Amec Foster Wheeler plc

In making this assessment the directors have taken into account the Company's current trading performance and prospects, the stated strategy concerning the review of underperforming assets and the board's appetite for risk. The Company refinanced its banking facilities in early March 2016 and the assessment confirms that we are compliant with the covenants and undertakings contained within these new facilities over the three-year period.

Royal Bank of Scotland Group
The bank's base plans are also tested in a series of robust downside financial scenarios as part of internal and external stress testing. Assessments of the risks of the greatest concern are captured through the bank's processes for continuously identifying and effectively managing the principal top and emerging risks.

These assessments provide a view on the impact of the top risks crystallising, individually and in combination. These are outlined in the Risk Overview and further discussed in the Risk Factors, and include political, legal, macroeconomic, regulatory, operational and execution risks.

5. Principal risks

When undertaking a robust risk assessment, there is a need to link the longer-term viability statement to the principal risks and/or particular risks faced by the company. This should include information and comments on the relevance of risks of particular concern. Given that the reporting of principal risks is separately required by the FRC risk guidance, the section on principal risks in the longer-term viability statements often referred to the list of principal risks provided elsewhere in the annual report and accounts.

Amec Foster Wheeler plc
The approach adopted for this assessment was a detailed review of the principal risks by a senior management team with representatives from finance, commercial, legal, tax and treasury, strategy, internal audit and risk to consider which of these risks might threaten the Group's viability. The assessment of these risks included modelling them in severe but plausible scenarios taking account of:

- varying impacts of specific risks across business units or market sectors as appropriate
- any potential risk interdependencies
- the risk mitigation measures currently in place

ITV plc
When considering the longer-term viability of ITV, the Board has reviewed each of ITV's principal risks and uncertainties and, taking into account current operational and financial performance, has in particular analysed the impact of:

- The Broadcast division experiencing a significant and sharp downturn, similar to the 2008/09 financial crisis, with regards to advertising revenues, but in this case with no immediate recovery
- A number of key programme brands within the Studios division not being recommissioned
- A significant change in ITV's pension funding obligations, following the triennial valuation in 2017 and subsequent funding arrangements

Rentokil
In making their assessment, the Directors have considered the current position of the business and have taken into account the potential impact of the principal risks. The assessment has included stress testing the financial forecasts for severe but plausible scenarios (both individually and in aggregate) together with the effectiveness of mitigating actions.
It has also considered the level of financing headroom and the ability of the group to raise additional finance and deploy capital. In particular, the Directors have considered the impact of a prolonged downturn in trading performance and have assessed liquidity in the context of a credit rating downgrade.

6. Key assumptions

When producing a longer-term viability statement, the key assumptions need to be specified, so that the context of the statement can be understood. Many examples provided detailed descriptions and information about the relevance of the key assumptions and/or business factors taken in to account when preparing the statement which provided valuable insight.

easyJet plc

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to September 2018.

- In making this statement, the Directors have also made the following key assumptions:
- funding for capital expenditure in the form of capital markets debt, bank debt or aircraft leases will be available in all plausible market conditions;
- there will not be a prolonged grounding of a substantial portion of the fleet; and
- in the event that the UK votes to leave the European Union, the terms of exit are such that easyJet would be able to continue to operate over broadly the same network as at present.

Rio Tinto

Key assumptions include: projections of economic growth, and thus commodity demand in major markets, primarily China; commodity prices and exchange rates, often correlated; cost and supply parameters for major inputs such as labour and fuel; and a series of assumptions around the schedule and cost of implementation of organic and inorganic growth programmes.

William Hill

A number of reasonable assumptions are included within these assessments, including:

- funding facilities will continue to be available or renewed on the same or similar basis throughout the period under review;
- following a material risk event, the Group would adjust strategic capital management to preserve cash, but would not curtail normal capital investment or adjust dividend policies; and
- the Group will be able to effectively mitigate risks through enacted or available actions, as described in this section 'Managing our Risks'.

7. Scenario testing

To provide information on the extent of stress testing of the longer-term viability statement, many companies provided detailed information on the scenario testing that had been undertaken. For most companies, the scenario testing provided an insight into the evaluation of the effectiveness of existing controls and risk mitigation for the principal risks faced by the company.

Admiral Group PLC

Quantitative and qualitative assessments of risks are performed as part of the ORSA process. The quantitative assessment (in line with the Group's capital and solvency projections) considers how the regulatory capital requirements, economic capital needs, own funds and the solvency position of the Company is projected to change over the three-year time horizon.
It also includes a series of stress tests, linked to the Group's principal risks and reports the impact of these stresses alongside any mitigating factors that reduce the impact. The results of the stress tests form part of the process to set the Group's capital risk appetite, which ensures that a buffer on top of the Group's regulatory capital requirement is held to protect its capital position against shocks and stresses.

Zoopla

The Directors have reviewed the potential impact on the business of sensitising a number of key assumptions including increased competition, a reasonable change or challenge with regards to regulation and macroeconomic factors such as a decline in the UK property market. Each analysis considered the Group's ability to meet its operational and financial obligations throughout the period including compliance with the Group's existing debt covenants.

Rolls-Royce

In making the assessment, severe but plausible scenarios have been considered that estimate the potential impact of each of the principal risks arising over the assessment period, for example: the loss of a key element of the supply chain; the impact on aircraft travel of a global pandemic; or, a failure to achieve planned cost reductions.

8. Specific negative circumstances

The greatest variation in the statements reviewed was in relation to the specific negative circumstances that could undermine longer-term viability. Several companies provided a detailed description of the specific negative circumstances and also indicated their relevance. Also, the consequences, issues or difficulties considered were often explained. One of the particular issues mentioned in several statements was the importance of banking covenants and circumstances in which it was foreseeable that these covenants could be breached.

Amec Foster Wheeler plc

The analysis of the principal risks has been weighted towards downside risk and a sensitivity analysis has been used to stress test the risk events most likely to negatively impact the company. Specific scenarios have been tested and include:

- a further fall in oil prices, increasing pressure on customer spending and impacting prospects for future projects
- project delivery failure resulting in delayed payments, settlement payments, reputational damage and reduced future work
- risk of cost overruns on lump sum contracts
- a substantive ethics breach and/or non-compliance with laws or regulation which could result in reputational damage, fines, litigation and claims for compensation
- a serious environmental incident causing third party damage and/or injury and reputational damage.

GlaxoSmithKline plc

The Board reviews our internal controls and risk management policies and approves our governance structure and code of conduct. It also appraises and approves major financing, investment and licensing decisions, and evaluates and monitors the performance and prospects of GSK as a whole.

These metrics have been subject to sensitivity analyses which involve flexing a number of the main assumptions underlying the forecasts both individually and in combination. Where appropriate, these analyses have been stress tested to ensure robustness of viability over the period and have evaluated the potential impact of material negative changes in the macro-economic and healthcare environment, increased pricing pressure in both the US and Europe.

Serco Group plc

It is unlikely, but not impossible, that the crystallisation of a single risk would test the future viability of the Group; however, unsurprisingly, and as with many companies, it is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different significant risks, could put pressure on the Group's ability to meet its financial covenants. At this point, the Group would look to address the issue by exploring a range of options including, amongst others, a temporary or permanent renegotiation of its debt covenants; disposals of parts of the Group's operations to reduce net debt; and / or raising additional capital in the form of equity, subordinated debt or other such instruments.

9. Board discussion

In order to produce a full and comprehensive longer-term viability statement, a detailed discussion about risk is required by the board. The requirement to produce the statement should therefore enhance the quality of the risk discussion at board level, as it underpins the future prospects of the company. It was notable that the more detailed statements provided links to other parts of the annual report and accounts and, in particular, links to the section of the report that discussed the development and implementation of future strategy.

InterContinental Hotels Group

The Directors have determined that the three-year period to 31 December 2018 is an appropriate period to be covered by the viability statement as each year the Group's planning process builds into a robust three-year plan. The detailed three-year plan takes into consideration the principal risks, the Group's strategy, and current market conditions.

The plan then forms the basis for strategic actions taken across the business. The plan is reviewed annually by the Directors and approved towards the end of the calendar year. Once approved, the plan is then cascaded to the business and used to set performance metrics and objectives. Performance against those metrics and objectives is then regularly reviewed by the Directors.

Rolls-Royce
In making this statement, the Directors have made the following key assumptions:

- maturing facilities will be refinanced. The Group currently has access to global debt markets and expects to be able to refinance these facilities on commercially acceptable terms.
- in the event of multiple risks occurring and having a particularly severe effect on the Group, all potential actions, such as constraining capital spending and reducing or suspending payments to shareholders, would be taken on a timely basis.
- implausible scenarios, whether involving multiple risks occurring at the same time or the impact of individual risks occurring that cannot be mitigated by management actions to the degree assumed, do not occur.

Serco Group plc
In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The Directors have made the following key assumptions in connection with this assessment:

- there is no significant unexpected contract attrition and bid conversion rates are not significantly lower than anticipated;
- the Group is able to execute its new strategy and deliver forecast margin improvements; and
- the Group is not subject to any material penalties or direct and indirect costs and / or losses arising from the current SFO investigation.

10. Reasonable expectation

As with all risk assessments, the process is centered around future uncertainties. Therefore, it is not possible to give absolute assurances regarding the longer-term viability of a company. The FRC risk guidance requires the board of the company to provide confirmation of the reasonable expectation that the company will continue in operation and meet its liabilities as they fall due over the period selected for the longer-term viability statement.

Rio Tinto
Taking into account the Group's current position and principal risks, the directors have assessed the prospects of the Group, over the next three years, and have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over that period.

It is impossible to foresee all risks, and the combinations in which they could manifest, and there may be risks that currently or individually do not appear material that could turn out to be material, particularly if occurring in close sequence.

Zoopla
Based on the analysis performed the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for the next three years and continue to adopt the Going Concern basis in preparing the Group's audited financial statements for 2015.

BAE Systems
On the basis of this and other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that the Company will be able to continue in operation and meet its liabilities as they fall due over the periods used for the assessment. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. Also, this assessment was made recognising the principal risks that could have an impact on the future performance of the Company.

5. Commentary and observations

The examples selected for this report indicate that the first attempt at producing a longer-term viability statement has provided shareholders and other stakeholders with an insight into the prospects of each company. The requirement to produce these statements is an important addition to the reporting obligations and is of considerable use to shareholders and other stakeholders.

It is also undoubtedly the case that the requirement to produce a longer-term viability statement has improved the quality of the board discussion about risk and risk management.

The first batch of statements are reasonable, but more detailed information needs to be provided in future statements to avoid the possibility of them becoming a standard annual declaration, which would be both regrettable and misleading.

In general, the analysis dentified several areas for further enhancement of the longer-term viability statements, as follows:

A. Very little quantitative information is offered in the statements to indicate the level of numerical analysis that has been undertaken and there is little by way of indication of the calculated level of confidence provided in the available statements

B. Insufficient information is provided in several statements on how risks are viewed in combination and whether specific combinations of unrelated risks occurring together could seriously undermine longer-term viability

C. Insufficient evidence and information is provided, in some cases, on the key assumptions underpinning the statement, the extent of scenario testing, and the specific negative circumstances that could arise in many statements.

6. Lessons for risk professionals

The publication of this latest FRC risk guidance elevates the importance of risk management within the corporate governance framework.

Producing the longer-term viability statement should improve the quality of discussion at the board on risk management and internal control. This in turn will elevate the importance of risk management in the company.

The lessons for risk professionals are clear. They will need to be in a position to facilitate the robust risk assessment which must be undertaken in order to produce the longer-term viability statement. This will require risk managers to become involved with the assessment of strategic and tactical risks, in addition to the more familiar, operational and compliance risks.

It is for risk professionals to take advantage of this development and grasp the opportunity to enhance the profile of risk management within in their company and to support the evaluation of existing business models, as well as the development of future strategy.

Framework for the construction of the longer-term viability statement

1. **Code provision**
   Explicit reference to the code provisions and the obligation to produce the longer-term viability

2. **Scope of statement**
   Context for the company, including external factors and other governance obligations, the scope of the statement and links to integrated reporting

3. **Timescale selected**
   Timescale selected, factors that justify the selection of the timescale and comments on alignment of the timescale to business processes

4. **Robust risk assessment**
   Confirmation that a robust risk assessment has been undertaken, including consideration of risks that could occur in combination

5. **Principal risks**
   Link to the principal risks and/or particular risks, including information and comments on the relevance of risks of particular concern

6. **Key assumptions**
   Description and relevance of the key assumptions and/or business factors taken into account when preparing the viability statement

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   Description of stress testing and scenario testing undertaken in the evaluation of the effectiveness of existing controls and risk mitigation

8. **Specific negative circumstances**
   Description and relevance of any specific negative circumstances, consequences, issues or difficulties considered, including banking covenants

9. **Board discussion**
   Nature of the evaluation undertaken by the board to confirm that the viability statement is valid, including reference to the successful delivery of strategy

10. **Reasonable expectation**
    Confirmation of reasonable expectation that the company will continue in operation and meet its liabilities as they fall due over the period

Appendix A:

Extract from the Financial Reporting Council (FRC) 'Risk Guidance' (2014)[1]

Reproduction of Appendix A from the '*Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*' published by the Financial Reporting Council in September 2014.

Appendix A: Longer-term viability statement

1. Provision C.2.2 of the Code requires that the directors should explain in the annual report – taking account of the company's current position and principal risks – how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. They should also state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. This statement is intended to express the directors' view about the longer-term viability of the company over an appropriate period of time selected by them.

Reasonable expectation and period covered

2. Reasonable expectation does not mean certainty. It does mean that the assessment can be justified. The longer the period considered, the more the degree of certainty can be expected to reduce.

3. That does not mean that the period chosen should be short. Except in rare circumstance it should be significantly longer than 12 months from the approval of the financial statements. The length of the period should be determined, taking account of a number of factors, including without limitation:
   - the board's stewardship responsibilities;
   - previous statements they have made, especially in raising capital;
   - the nature of the business and its stage of development; and
   - its investment and planning periods.

4. The statement should be based on a robust assessment of those risks that would threaten the business model, future performance, solvency or liquidity of the company, including its resilience to the threats to its viability posed by those risks in severe but plausible scenarios. Such an assessment should include sufficient qualitative and quantitative analysis, and be as thorough as is judged necessary to make a soundly based statement. Stress and sensitivity analysis will often assist the directors in making their statement. These simulation techniques may help in assessing both the company's overall resilience to stress and its adaptability and the significance of particular variables to the projected outcome.

5. The directors should consider the individual circumstances of the company in tailoring appropriate analysis best suited to its position and performance, business model, strategy and principal risks. These should be undertaken with an appropriate level of prudence, i.e. weighting downside risks more heavily than upside opportunities. This may include analysis of reverse stress, starting from a presumption of failure and seeking to identify the circumstances in which this could occur.

Ability to continue in operation and meet liabilities as they fall due

6. Directors are encouraged to think broadly as to relevant matters which may threaten the company's future performance and so its ability to continue in operation and remain viable. Directors should consider risks to solvency (the company's ability to meet its financial liabilities in full), as well as liquidity (the ability to meet such liabilities as they fall due) – which may be a timing issue even if the entity appears to be solvent over time – and other threats to the company's viability.

7. The board's consideration of whether a risk or combination of risks could lead to an inability to continue in operation should take full account of the availability and likely effectiveness of actions that they would consider undertaking to avoid or reduce the impact or occurrence of the underlying risks and that realistically would be open to them in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the board's regular monitoring and review of risk and internal control systems should be taken into account.

Qualifications or assumptions

8. Any qualifications or assumptions to which the directors consider it necessary to draw attention in their statement should be specific to the company's circumstances, rather than so generic that they could apply to any predictions about the future. They should be relevant to an understanding of the directors' rationale for making the statement. They should only include matters that are significant to the company's prospects and should not include matters that are highly unlikely either to arise or to have a significant impact on the company. Where relevant, they should cross-refer to, rather than repeat, disclosures given elsewhere.

[1] *https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Risk-Management,-Internal-Control-and.pdf*

Appendix B:

List of sources of longer-term viability statements used in this report

1. Admiral Group plc – Annual Report and Accounts 2015
2. Amec Foster Wheeler plc – Annual report and accounts 2015
3. BAe Systems – Annual Report 2015
4. easyJet plc – Annual report and accounts 2015
5. GlaxoSmithKline plc – Annual Report and Form 20-F 2015
6. InterContinental Hotels Group – Annual Report and Form 20-F 2015
7. Intu Properties plc – Annual report 2015
8. ITV plc – Annual Report and Accounts 2015
9. Rentokil – Annual Report 2015
10. Rio Tinto – 2015 Annual report
11. Rolls-Royce Holdings plc – Annual Report 2015
12. The Royal Bank of Scotland Group plc – Annual Report and Accounts 2015
13. Serco Group plc – Annual report and accounts 2015
14. Unilever plc – Annual Report and Accounts 2015
15. William Hill plc – Annual Report and Accounts 2015
16. Zoopla Property Group Plc – Annual Report 2015

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