KPMG

Audit Committee Institute

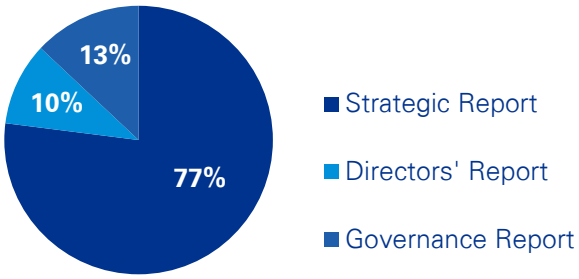
Viability statements: Five things we have learned

From a review of the first fifteen FTSE350 companies to publish their September 2015 annual reports we have learned the following five things about 'viability statements':

Compliance with the 2014 UK Corporate Governance Code requires that, taking account of the company's current position and principal risks, the directors should explain in the annual report 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. The directors should 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.

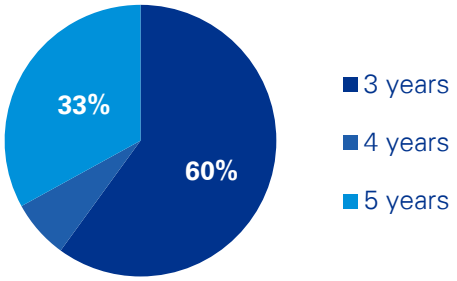
1 The majority (77%) have put the statement in the Strategic Report (with or adjacent to the 'principal risk and uncertainty' disclosures); 10% have gone with the Directors' Report. All of these have taken advantage of the so called 'safe harbour' within the 2006 Companies Act whereby directors will only be liable to compensate the company if the company suffers any loss as a result of the directors knowingly making any untrue or misleading statement in (or omission from) the Strategic Report or Directors' Report (or Remuneration Report). Therefore, provided the directors do not issue a deliberately or recklessly untrue or misleading statement or dishonestly conceal a material fact by way of omission, their liability is limited in respect of the viability statement.

Location



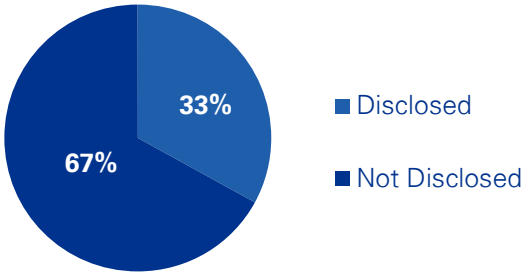
2 The viability assessment period is generally based on the existing medium-term planning cycle. 60% have gone for 3 years and 33% have gone for 5 years. One company chose a four year period.

Viability period



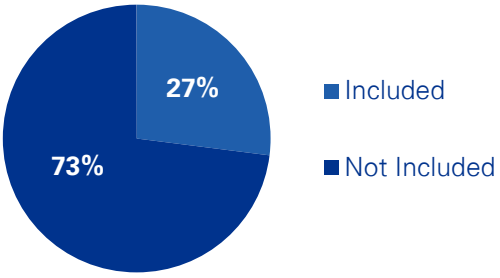
3 While a number of companies make generic statements about the use of assumptions within the assessment process, only five companies explicitly identify the key qualifications and assumptions of significance to the company's prospects and relevant to an understanding of the directors' rationale for making the statement.

Specific qualifications and/or assumptions



4 Along with the 'new' viability statement, compliance with the 2014 UK Corporate Governance Code also requires that the directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. In four of the annual reports reviewed, this statement was included within the viability statement. For the other companies, the 'robust assessment' statement was disclosed separately.

'Robust assessment' included within the viability statement



5 Paragraph 47 of the FRC's guidance 'Risk management, Internal Control and Related Financial and Business Reporting' sets out that *"for groups of companies, all reporting should be from the perspective of the group as a whole"*. Two of the viability statements (13%) reported on the viability of both the 'company and group'.

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