

ACCOUNTANTS FOR BUSINESS

Reporting risk

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This report examines how the quality and value of risk reporting can be improved. It reviews current practice in risk reporting, the barriers to better risk reporting, the wishes of users, and the concerns of preparers.

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1. Introduction

There is a growing agreement among users, preparers and advisers that risk reporting needs to improve; better risk reporting is integral to better governance. The question of how best to balance what investors and other users want to see in a risk report with what organisations are willing to disclose, however, remains to be answered. In particular, organisations are reluctant to disclose anything that might threaten competitive advantage or to discuss potential risks in detail in case this alarms stakeholders (especially providers of finance). The result, too often, is a boilerplate, generic risk report that serves no one's interest. Shareholders and stakeholders are entitled to better information.

In 2014, ACCA conducted research to identify how the quality and value of risk reporting can be improved. Through a series of interviews with investors and regulators, as well as preparers of risk reports, the research examined current practice in risk reporting, the barriers to better risk reporting, the wishes of users, and the concerns of preparers. This report summarises the main messages that emerged.

It is clear that, as a discipline, risk reporting is still evolving and that users and preparers are still negotiating what the former want to know and what the latter want to provide. We hope that this report helps to inform that debate.

2. Risk reporting today

Risk and how it is managed and reported in a corporate setting have been under a constant spotlight in recent years. A series of high-profile corporate failures and incidents that have damaged well-known brands had already increased the interest in risk reporting in the early 2000s, but the financial crisis of 2007–8 drove the issue to the top of the agenda for regulators and investors.

Most of the guidance and regulatory requirements for risk reporting were developed after the financial crisis, but some nations have a better record than others, historically, of forcing or encouraging companies to report on risk. The US, for example, has required companies listed with the Securities and Exchange Commission (SEC) to describe the risks faced by the business (in some form or another) since the 1970s.

Within Europe, the EU Accounts Modernisation Directive of 2003 said that companies should describe the risks they face, in both annual and interim reports. Two countries have gone further than the Europe-wide requirements – Germany has its own risk reporting standard (GAS 5), while the UK's Corporate Governance Code says that companies should report at least annually on the effectiveness of their risk-management procedures.

The UK could go still further in the near future – in November 2013 the Financial Reporting Council published a consultation paper (FRC 2013) that proposed a more integrated approach to risk reporting, linking risk management to internal controls and going concern. If changes to the Corporate Governance Code are confirmed, it will recommend that directors 'carry out a robust assessment of the principal risks facing the company' and explain in the annual report how these risks are being managed or mitigated.

'Risk has now become something that can be discussed, when previously it was a four-letter word.'

RISK REPORTING AFTER THE FINANCIAL CRISIS

The credit crunch of 2007–8 and subsequent financial crisis concentrated the mind of regulators, preparers and users on risk management and reporting. A series of reports from the Financial Stability Forum (2008), the European Commission (2009), UK Government (HM Treasury 2009), and others in the immediate years after the crisis called for improvement in risk disclosure by financial institutions. This resulted in a range of new and enhanced reporting guidance aimed primarily at the financial sector, including:

- the IASB's IFRS 7, *Financial Instruments: Disclosure*
- the requirements of the *Basel II* accord (particularly the Pillar 3 disclosures covering capital adequacy), which will be extended by *Basel III*
- *Enhancing the Risk Disclosures of Banks: Report of the Enhanced Disclosure Task Force* (Financial Stability Board 2012).

Many users, in particular, believe that risk reporting has improved since the crisis, although most would argue that there is still a long way to go. One of the most important legacies of the crisis is that it raised the profile of risk management and reporting to the extent that they are now widely and openly discussed.

The views of a number of interested parties were sought for this report. Frank Curtiss, head of corporate governance at RPMI Railpen Investments, said that he had seen 'a lot of progress in risk reporting since the financial crisis. Risk has now become something that can be discussed, when previously it was a four-letter word. The better [risk] reporters are telling us something useful about risk – the levels of disclosure used to be terrible across the board, but now there are plenty that are not'.

Brian Abrey, while working on the financial risk framework at the insurer Old Mutual Group, said that there had been 'a great deal more granularity in internal reporting' in financial service firms since the crisis: 'Some have torn up what was done before, others have evolved. And regulators have also stepped up their requirements, which has forced organisations to go further, or at least accelerate their plans'.

Even so, there was a general agreement among users consulted for this report that this is just the beginning for better risk reporting. Jane Fuller, who chairs CFA UK's financial reporting and analysis committee, said that while guidance such as that from the Enhanced Disclosure Task Force of the Financial Stability Board has helped, risk reporting in general 'still has a long way to go. The momentum towards better risk reporting has improved a bit since 2008 at least, and I have had more discussions about how to improve risk reporting since then. But moving things forward will require a change in attitude'.

BOX 2.1: RISK DISCLOSURES

The Enhanced Disclosure Task Force (2012) sets out seven principles for risk disclosures.

1. Disclosures should be clear, balanced and understandable.
2. Disclosures should be comprehensive and include all the bank's key activities and risks.
3. Disclosures should present relevant information.
4. Disclosures should reflect how the bank manages its risks.
5. Disclosures should be consistent over time.
6. Disclosures should be comparable among banks.
7. Disclosures should be provided on a timely basis.

This view is reinforced by the research that is available. BDO in Hong Kong, for example, states in its 2013 *Corporate Governance Review* that about one-third of companies listed on the Hang Seng Composite Index did not disclose the processes they use for identifying, evaluating and managing risks. Those companies that did report on risk-management processes, the report adds, 'often struggled to explain them and merely reported a list of risks that were identified and mitigated'. The firm is hopeful, though, that things will improve, saying in the report that 'it was encouraging to see that more companies have established separate risk committees, rather than addressing risks through the audit committee and board'.

'The big challenge now is the mass of companies whose risk reporting is inadequate at best', said Frank Curtiss. 'There are some shining examples, good reports that tell the story honestly and in the voice of the company. The trick now is to get the others up to speed'.

HAVE IMPROVEMENTS IN RISK REPORT SPREAD BEYOND THE FINANCIAL SECTOR?

There is a general view that the raised profile of risk reporting in the financial sector is having a trickle-down effect on other sectors. Some sectors are, of course, inherently more risky than others but, although internal risk management is well developed, it does not necessarily follow that risk reporting is equally advanced. Those consulted agreed that the financial crisis had helped to bring the discussion of risk in all sectors out of the boardroom and into the public arena.

'Across the board, there has been a definite improvement in the level of information disclosed, whether this is in the oil industry, the tobacco industry, manufacturing or retail', Brian Abrey argued. 'Now the market will really push the less sophisticated [in terms of risk reporting] sectors, and they will all need to change in the next five to ten years'.

There are few industries more risky than the extractive industries – companies typically work in dangerous environments, often in unstable regions (geographically and politically), and are subject to unpredictable commodity prices and exchange rates. Risk reporting has always been a contentious subject for the extractive industries, but the explosion and subsequent spillage at BP's Deepwater Horizon oil rig in the Gulf of Mexico in 2010 brought the issue sharply to the fore. Simon Constant-Glema, vice president corporate and UK country controller at Shell, said that the disaster 'focused everyone's mind on risk and risk reporting'.

As a result, it is generally believed that companies in the financial services and extractive industries sectors are producing some of the most thorough and innovative risk reports. Even so, companies outside these sectors have also made improvements to their risk reporting – the pharmaceutical sector was singled out, by some of those consulted for this report, as willing to be more forthcoming in risk reports.

The raised profile of risk reporting has also spread to developing regions. Ewald Müller, director of financial analysis at the Qatar Financial Centre Regulatory Authority (QFCRA), has the

BOX 2.2: LEADING THE WAY IN RISK REPORTING

Preparers and users consulted for this report identified a number of companies that, in their view, were leading the way in risk reporting.

Admiral – its CEO statement highlights the risk relating to its change of strategy – users agreed that placing this discussion in the CEO's statement was right.

Aggreko – this report was admired for its 'personal voice' and 'refreshing honesty'.

BP – the way the report set out the risks the company faces was described as 'focused and precise'.

BT – it was agreed that the company gave a very good description of its business model and a good, up-to-date risk section, rather than repeating what it had said in previous years.

Great Portland Estates – it was agreed that the company explained its strategy clearly and discussed each risk with helpful cross-references to other parts of the report.

Provident Financial – it was agreed that the company provided a great deal of useful and necessary detail in its report, including the risk committee's agenda.

task of helping to set up a regulatory system and financial reporting regime for Qatar's fledgling financial services sector. Effective risk reporting is a central element of its objective. Müller says that the financial crisis was a catalyst for a more focused conversation about the value of risk reporting in many countries.

He conceded, however, that risk reporting 'is something that is relatively new to companies based in Qatar' and that there is still a lot of work to do: 'The prevalence of risk reporting has increased across the Middle East in the past few years, but there is a lack of broad understanding of risk reporting, a lack of skills around risk reporting, and a lack of understanding among users about what risk reports are meant to convey'.

WHAT IS THE VALUE OF RISK REPORTING?

Much of the improvement in risk reporting has been driven by compliance, but users and preparers were keen to stress that risk reporting brought benefits not only to users but to the organisations themselves. According to Simon Constant-Glema of Shell, 'in the past, risk management was focused on mitigation, but today it is part of adding value to the organisation'.

'High-quality risk reporting increases investor confidence, not just in terms of the risks being discussed, but also in the overall quality of management', agreed Frank Curtiss of Railpen Investments. Paul Green, global head of risk and compliance at Unilever, added that comprehensive but targeted risk disclosures help investors to make comparisons between companies and between the actions and behaviours of

their management, 'weighing up their attitude and appetite towards particular areas of risk'.

Ricky Cheng of BDO said that a report that 'demonstrates how management is handling tough or risky scenarios' will be valuable to investors, because linking between company objectives and risk factors gives investors a better idea about how the company's performance will be affected if particular risks materialise.

Both preparers and users, though, made a distinction between the various audiences of a risk report. Syed Faraz Anwer, partner for risk advisory and business improvement services at PwC Pakistan, said that while institutional investors attach great importance to risk disclosures, smaller investors are not yet aware of the benefits. 'This makes it very difficult for organisations to decide how much information to disclose and how to disclose it. They also have concerns about how investors will perceive this information. Sometimes they feel that if there is more risk information, then there is a perception that there is more risk'.

The concern for many preparers is that risk information will be misunderstood by some investors – an issue that is behind many of the problems with the quality of risk reporting today.

Paul Green of Unilever summed it up when he said: 'Risk is a problem child. There is broad acknowledgment that it is a way to hold boards accountable, but there has been no immediate advancement. As a tool, risk reporting must be seen as part of the solution. Investors would value a report where executives give a good account of themselves'.

3. What is wrong with risk reporting today?

Everyone consulted during the project had concerns about the quality of risk reporting today. A straw poll carried out at a recent ACCA conference on risk reporting found that 80% of attenders thought that the trend towards voluminous reporting on risk was obscuring the key risks. Generally, users are by far the most critical, arguing that risk information was either difficult to find, or too unspecific to be of significant use.

WHAT DO USERS THINK?

Among those consulted for this report, the most critical users were the analysts, who argued that too many reports are:

- too generic
- too bland
- too verbose, and
- biased towards the positive.

In addition they fail to provide the specific information – such as qualitative information – that is of practical use to users.

‘The problem is often that the information provided is detailed yet vague, which makes it difficult for the audience to derive any meaningful conclusions’, said Syed Faraz Anwer of PwC Pakistan. He added: ‘By potentially confusing buyers in this way, risk reporting could itself be creating more risk’.

‘There is not enough challenging going on, from boards or auditors or investors, about the “what ifs” – what if this went wrong?’

Many users consulted said that organisations were too wary of talking openly and fully about risk, for a number of reasons. ‘The great challenge in all reporting is that it gets taken over by advisers’, said Eric Tracey, consulting partner with Governance for Owners. ‘Advisers either make it bland, or put everything in but the kitchen sink, in which case it becomes completely useless’.

Jane Fuller agreed: ‘The main barrier to better risk reporting is companies’ reluctance to be frank. At the moment risk reporting is a process-driven exercise, which describes what they have looked at and what the risks are, and that is a long way from a truly frank discussion’.

She added that while companies are reluctant to explain fully the risks they face, auditors and investors have a responsibility to question management’s view. ‘The reaction of some companies seems to be, “don’t worry your little head about it”’, she said. ‘There is not enough challenging going on, from boards or auditors or investors, about the “what ifs” – what if this went wrong?’

WHAT DO COMPANIES SAY?

Preparers recognised that there is a basic conflict between the instinct to be positive in an annual report and nature of risk reporting, which requires an

examination of dark recesses. Paul Green of Unilever raised the point that for companies: ‘talking about risk is seen as talking about the negative. No company wants to give the impression that it has more downside exposure than its competitors. Annual reports are about being upbeat and positive, and I don’t think we have found a way to fully deal with this tension’.

Simon Constant-Glemas of Shell added that the regulations that have come into force since the financial crisis were in danger of encouraging a compliance-based response to risk reporting. ‘There has been a huge increase [in regulation faced by multinationals] since the financial crisis, and the question is whether that drives better risk management or not’, he said. ‘There have certainly been unintended consequences. At Shell we are captured by criteria that are not intended for us, simply because we are large. In my view that has the potential to distract organisations from good risk management.’

‘My main concern is that the raft of new regulatory requirements could result in organisations seeing risk reporting as just another box-ticking exercise, rather than driving better risk management. We have to be careful that we’re not reporting risk in order to satisfy a process, but that risk management is used effectively as a way to differentiate the business’.

4. What does a good risk report look like?

‘What I want to see is an honest explanation in the context of the business strategy and the business model and how that risk is managed.’

It is clear that improving risk reporting will be a delicate balancing act between the needs of users and the concerns of preparers. On a superficial level, the debate over what should and should not be included in a risk report can be summed up as: users want more, and preparers want to provide less.

The biggest concern about existing reports is that they are formulaic, generic and too PR-oriented. Analysts and other users want to see, as Eric Tracey of Governance for Owners put it, ‘what directors are really worrying about, not something that is just made up for the annual report’.

‘What I want to see is an honest explanation in the context of the business strategy and the business model and how that risk is managed’, said Frank Curtiss of RPMI Railpen Investments. ‘While I recognise that other stakeholders will want to look at corporate reports and there is a wider public interest, the purpose of financial reporting is about stewardship and accountability to those who provide risk capital’.

Qatar’s financial sector is an interesting test case for risk reporting, since it is essentially setting up a framework from scratch. Ewald Müller of QFCRA said that ‘one of the benefits of starting with a blank piece of paper is that the QFCRA has been able to focus on what it sees as the essentials of good risk reporting: brevity’. He added that QFCRA had focused on the International Monetary Fund’s financial

stability indicators: ‘It is a very good starting point, in the sense that it reflects the work of the entire world and focuses only on key indicators’.

He added that his ideal risk report ‘would contain more pictures than words, and should explain what matters to the company, what the company did right, what it did wrong, and what it changed’.

Syed Faraz Anwer pointed out how the utility of report can be enhanced, he said ‘There has to be proper time spent by the board, by senior management and all the key stakeholders, on what should be reported and what the value is of reporting it’.

USERS’ WISH-LIST

The ‘wish list’ of content for a risk report, according to analysts and other users consulted is:

- identification of the key risks the company faces, preferably in plain English
- an explanation of why management believes these risks to be critical
- an explanation of what management is doing to mitigate these risks
- identification of emerging and new risks
- an explanation of how management assesses risk throughout the year.

Some organisations are producing risk reports that include many of these elements. Jane Fuller said that a few banks, notably Barclays and HSBC, have experimented recently with an approach to risk reporting that prioritises the major risks and identifies any emerging risks. ‘The results have been interesting’, she said, ‘and suggest that there is some scope for shortening the risk section in the voluminous discussions and boilerplate lists sometimes produced’.

She added, though, that there is a fine line between providing too much and too little information, and sometimes it comes down to the personal preference of the reader: ‘Some investors like the very detailed risk reporting you get in a prospectus, but personally, I would rather see risks prioritised. Detail is, of course, also important – I would rather have 20 pages of risk disclosures, and use my own brain, than very few. If there is too much narrowing down of the reported risks it is more likely that something will be left out’.

‘Even the most clued-up investors don’t know everything – they’re not present at board meetings or risk committee meetings so the more a company explains, the better’, said Frank Curtiss. Syed Faraz Anwer agreed: ‘If your competitors already know something, then it is probably a good idea to share it with your investors and give them comfort about the way you will be doing business in the future’.

DO PREPARERS AGREE?

The preparers consulted agreed that more detail could and should be given about risk, although improving the quality of risk reporting is an equally pressing issue, rather than simply advocating more information. 'I'm in the camp that says listed companies should be more forthright than they generally are when it comes to risk reporting in an annual report', said Paul Green of Unilever. 'It should obviously contain a statement on significant activities that have taken place during the year, the risks that have been investigated, reviewed or assessed beyond the "business as usual" perspective. That much is not contentious, but it should also include the risk-management activities for material risk in more detail. And it should definitely include a forward view.'

Simon Constant-Glema of Shell argued that while he understood investors' desire for as much information as possible, 'a more considered approach' needs to be taken. 'Addressing all possible risks in a risk report would be counterproductive – more comprehensive risk reporting doesn't mean better risk reporting', he said. 'At Shell we employ more than 100,000 people in 70 countries, so any risk that's applicable to a large multinational would apply to us. It is much better to provide a concise overview of the key risks inherent in the business that are most likely to prevent the achievement of its objectives'.

Along with other preparers, Constant-Glema argued that the main purpose of a risk report should be to provide enough information for a useful conversation about risk between

QUALITATIVE ANALYSIS OF RISKS

One issue raised by users was the quality of information provided in risk reports, particularly details about what future risks might arise and what they might mean. Jane Fuller's view was that risk reports 'rarely get to the fundamentals of what an identified risk would mean in practice'. BP's risk reports before the Deepwater Horizon accident, for example, might have talked repeatedly about safety risks, but 'there would have been little to help analysts in terms of what a rare accident might mean, when looking at the financial impact it would have'.

Fuller suggested that a more useful approach for analysts would be for 'a company to say that accidents rarely happen but if one does, it will be very expensive for us and this is how we would mitigate the impact. Or a pharmaceutical company could disclose its general risk of litigation and say that, while it happens [only] on rare occasions, if it does happen the cost is considerable, perhaps illustrating this by disclosing the biggest litigation payouts in the sector in the past.'

'This approach might cause migraines in many a boardroom but it would result in a far more useful discussion about risk'.

This is a fundamental question for risk reporting: can a risk report ever helpfully highlight the risks of rare but catastrophic 'Black Swan' events? In practice, while analysts argue that an attempt to quantify the financial impact of a disaster on the Deepwater Horizon scale would be useful, preparers are understandably reluctant.

'It is easy to say what risks have been dealt with in the immediate past, it is less easy to do so looking to the future without painting a bland, uninformative picture. It is a delicate balancing act'.

'That last point is important. It is easy to say what risks have been dealt with in the immediate past, it is less easy to do so looking to the future without painting a bland, uninformative picture. It is a delicate balancing act'.

Green also argued that risk reports should look beyond financial and operational risks: 'There should also be some discussion about non-financial, reputational classes of risk that are more about potential damage to the name and brand of the organisation. These risks are often overlooked, and they could be given more prominence'.

stakeholders and management. 'The quality element of risk reporting comes down to the conversation about risk that takes place, and that conversation should start with the risk report', he said. 'A detailed discussion about risk is more likely to come out in a conversation between the CEO or finance director and analysts and other stakeholders – the annual report is not really the place to go into that sort of detail'.

Simon Constant-Glemas of Shell said that difficult conversations about Black Swan events do take place within companies – or at least, they should. ‘I strongly believe that a thorough consideration of everything that could possibly go wrong is an important part of good risk management, even if the full details are not disclosed publicly’, he said. ‘But I do wonder if enough thinking goes on around rare events – I suspect that not enough people considered the probability of the entire inter-bank lending system grinding to a halt overnight before the financial crisis happened’.

Disclosing the details of this conversation in a risk report, though, ‘is another thing altogether’, said Constant-Glemas. The biggest worry is that highlighting the possibility of events and quantifying the financial impact could frighten investors, but he also had concerns about whether a quantitative estimate would be meaningful: ‘The nature of Black Swan events means that it is difficult to think about what the impact of an event could possibly be, let alone put a reliable figure on it. The context of probability is difficult to get across’.

There is a school of thought, though, that probability-based accounting could bring significant benefits to accounting in general. In 2012 ACCA, along with Long Finance and the Chartered Institute for Securities & Investment, published a proposal (Harris et al. 2012) on ‘confidence accounting’, which set out how accounts might better convey levels of confidence in reported numbers by taking into account the uncertainties inherent in many of the values reported

in the balance sheet and notes to accounts. The feedback to the proposal showed that investors would value the use of the ‘confidence accounting’ approach by audit committees, when they are considering critical accounting judgements and assumptions as part of the ‘fair, balanced and understandable’ requirement.

RISK REPORTING AND SENSITIVE INFORMATION

There is clearly a gap between what investors want from a risk report and what companies believe is appropriate to disclose. Many companies argue that providing any more detail than they currently do would require them to disclose commercially sensitive information.

This argument is not popular with users. ‘I think it’s used too much as an excuse and it tends to infantilise the role of investors’, said Jane Fuller. ‘They’re effectively saying that they don’t want to frighten the horses’. Eric Tracey said he was not impressed when commercial sensitivity was used as a barrier to risk reporting: ‘It’s a fantastic smokescreen to hide all sorts of things and I don’t give it much credence at all. You ought to be able to describe your risks without giving away something that you should

keep secret. It’s precisely because it is sensitive that something should be reported to shareholders’.

Preparers with a strong record in risk reporting say that it is possible to produce a useful risk report without disclosing sensitive information. Simon Constant-Glemas of Shell said he did not think that competitive advantage was an issue: ‘You can strike a balance between referencing risk and not giving away critical information. The vast majority of the time some information will be in the public domain already and so, if necessary, a more generic reference can be made’.

Paul Green of Unilever suggested that regulatory intervention might be needed to stimulate more comparable levels of disclosure by companies. ‘We might not want to talk too much about the risk conversation that goes on inside the boardroom, but every business has plenty of data about risks that have happened. I think it would be a big step forward to force companies to disclose all of this relevant risk data in their annual reports in a structured, consolidated section, rather than its being lost within the report. Yes, it would be sensitive, but everyone would be in the same boat and they would have to be transparent’.

‘I think it would be a big step forward to force companies to disclose all of this relevant risk data in their annual reports in a structured, consolidated section, rather than its being lost within the report.’

5. What is the future of risk reporting?

It remains open to debate whether regulation should play the primary role in encouraging better risk reporting. The possibility of an internationally recognised standard or guidance on risk has been mooted, although it has not generally gained a great deal of support. Many observers argue that the move towards integrated reporting might encourage better risk reporting over time.

The users and preparers consulted for this report agreed is that peer pressure is extremely effective in persuading companies to be more transparent. 'There's clearly a balance between informing the markets and giving the game away, but the more transparent companies don't seem to have a problem', said Frank Curtiss. 'If someone tells me it can't be done, I just tell them that some people are already doing it'.

Brian Abrey argued that even in unregulated sectors, companies are coming under increasing pressure to disclose more about risk and that a failure to do so could lead to a company's being undervalued. 'A market pull will push the company to disclose more, although no one will want to be the company that discloses too much', he said.

IS AN INTERNATIONAL STANDARD ON RISK REPORTING A REALISTIC AIM?

'I would like to see a more closely aligned international standard', said Frank Curtiss. He added that the cultural variations, even between English-speaking countries, would make application difficult. 'More standardisation of reporting of risk around the world

'More standardisation of reporting of risk around the world would in theory be a good thing.'

would in theory be a good thing,' added Eric Tracey, 'but the perfect should not be the enemy of the good'.

Many of those consulted believed that the IIRC was well placed to improve risk reporting. 'There has to be a race to the top, and that is why I support the IIRC's attempt to promote best practice internationally', said Frank Curtiss of RPMI Railpen, who is a member of the IIRC working group. 'There is definitely a willingness by governments and regulators to embrace [risk reporting] but investor and privately-led initiatives tend to be more successful, as by definition regulation has to be more detailed. We might see a significant step-change between now and 2020'.

Paul Green of Unilever was more reticent: 'I believe risks should be discussed separately [from integrated reporting]. It is still important that risks have their own headings rather than becoming part of a wider narrative'.

SHOULD RISK REPORTING BE MORE FREQUENT?

The possibility of real-time risk reporting is raised from time to time but while few see the benefits in going that far, more frequent risk reporting – quarterly or six monthly – is seen as a more realistic option.

Jane Fuller, though, said she was generally happy with annual reporting: 'A focused, standalone interim report, which states the top risks and how the

company is handling them, as well as any new risks that have emerged, might be a good addition. I don't favour frequent or real-time risk reporting'.

Eric Tracey said he was also happy with annual reporting. 'If you do anything other than that you can overload people with information,' he said. 'You need to know what's going on [as an investor] but every quarter or six months would be too often and encourages short-termism'.

Brian Abrey said there was a balance to be struck between timeliness and relevance. 'Risk reporting is, generally, slightly behind financial reporting and regulated industries are coming under pressure not just to produce risk reports but to do so in a timely way, much closer to financial reporting'. Risk reports should be at least annual, he added, 'with supplementary or interim reports if there have been significant changes – which could be market events or strategic events'.

Preparers, though, were less enthusiastic. 'More frequent risk reporting would not be particularly helpful', said Simon Constant-Glemas of Shell. 'A certain amount of risk is strategic and it would feel more like crisis management if risk reporting was carried out more frequently than it is today. The crystallisation of an emerging risk or emergence of a new risk would certainly warrant disclosure but risk reporting should not be confused with robust and timely management information'.

6. Conclusion

The views of preparers, users and other interested parties consulted for this report suggest that there is a growing momentum behind the desire to improve risk reporting. Risk reporting is clearly in an evolutionary stage, but the sensitive nature of risk means that preparers are still learning how best to approach the subject.

The problem, clearly articulated by the users quoted above, is that risk reporting is too formulaic and as a result provides little information of any real use. There is an argument that increased regulation of risk reporting would only encourage a compliance-based approach that would exacerbate the problem of generic reports. That is why it is critical that investors and other interested stakeholders get involved in

the debate, engaging with companies and taking an interest in what they report on risk. It is clear that users and investors find risk reporting, when done well, extremely useful; a proactive involvement in the debate by users can only encourage better practice.

There are opportunities here, too, for companies. Good risk reporting gives investors confidence – about the company, its business model and its management. Greater disclosure of risks is not a threat; it is a chance to demonstrate the strength of the company's controls and management.

Everyone has an interest in improving risk reporting; the conversation must continue.

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