



# Reporting on risks, uncertainties and opportunities

KPMG Board Leadership Centre



The Financial Reporting Lab has published its latest project report on reporting on [risks, uncertainties, opportunities and scenarios](#). It outlines what investors want to understand from corporate reporting and provides several practical examples of corporate reporting that better meets investors' needs as well as some high-level insights into how investors would like reporting on resilience to develop.

This is not the first time that the Lab has specifically looked at the connected areas of risk, uncertainty, opportunity and viability. However, somewhat regrettably, they report that there remains a gap between the information users want and the disclosures that companies provide and that the disclosure gap looks set to widen with climate-related uncertainty and an increased demand for enhanced Environmental, Social and Governance (ESG) reporting.

The Lab report sets out that while many companies are beginning to change and improve the way they manage risk, uncertainty and opportunities, this is not always translating into useful disclosure. Investors have commented that companies generally communicate opportunities well. But, it is the integration of opportunities and risks and in providing a comprehensive understanding of the risks where company disclosures are not meeting their needs.

The focus of the Lab report is very much on investor needs and it provides many useful examples of disclosures that more closely addressed such needs.

Alongside the report, the Lab has released a [one-page summary](#) of the report and a [podcast](#) in which participants discuss potential areas for improvement in the disclosures of risks, how an understanding of risks and related topics assists investors in making assessments about a company's longer-term prospects, how climate risk may reshape risk reporting and the value of business resilience reporting.

## Investor needs

The Lab report sets out that investors seek information relating to risks, uncertainties and opportunities that contributes to their understanding of a company's business model, longer-term strategy, resilience and viability.

There is an interrelationship between risks, uncertainties and opportunities and this may change due to internal and external factors. These factors should be identified and considered for appropriate responses to be taken. The Lab report breaks down investors needs into several building blocks that contribute to their understanding of:

- Governance and processes – Before understanding the nature of the risks, uncertainties and opportunities, investors want to understand how the board and management identifies, monitors and manages these areas and responds in an agile way. This is useful to build a picture of a company (especially when investors might be new to a company) and helps to build confidence in management.
- Nature – Investors want to build their knowledge of the risks, uncertainties and opportunities through disclosure addressing:
  - Context: what is the company's market position and how does it view macro and micro trends and themes?
  - Importance: how does it fit within the company's plans, how big is it, what is the likelihood and what priority attaches to it?
  - Form: how does the company identify and classify the risks, how do the risks align or connect with the opportunities and the wider company narrative and reporting?
- Approach – Investors want to understand how management are responding to the risks, uncertainties and opportunities. This requires information about:
  - Linkage: to the wider strategy, business models and metrics that allow the monitoring of risks and opportunities.

- Response: what is management tangibly doing to mitigate the risk (where relevant) and take forward the opportunity, what have they already done, what will they do in the short, medium and long term and how does this affect wider viability and resilience?
- Scenarios and stress-testing – Investors want to understand more fully what is on the company’s horizon and how this is integrated into the risk and opportunity process. They seek to understand how uncertainty impacts the risks and opportunities and how scenarios provide insight into the range of possible futures.

Scenarios are only truly useful if they are company-specific and incorporate information consistent with that provided elsewhere. Investors want to know that such exercises are conducted by the company and whether and how they influence its strategic decisions and, ultimately, its business model.

## The challenge

The Lab report goes on to note that many companies have evolved their internal processes and conversations around risks, uncertainties and opportunities, and these are becoming more integral to strategy and operations. However, they report that their conversations with investors have highlighted that external reporting does not, at present, adequately report this. This is, and will continue to be, a challenge for companies, specifically their risk functions. Helpfully, the lab report does highlight examples of where more consistent reporting of risks and related uncertainties and opportunities is beginning to emerge.

The FRC’s clear challenge for companies is to reflect this progress in their disclosures and make risk and opportunity reporting a key part of their strategic narrative.

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