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Marek Grabowski
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Dear Sir,

Barclays welcomes the opportunity to comment on the Financial Reporting Council's (FRC) consultation document *Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)* (the consultation). The proposals represent a significant change to UK financial reporting and, whilst we are generally supportive of the Sharman Panel's (the Panel) recommendations, we believe further consideration is needed how best to implement them, to minimise any negative effects on financial stability and the international competitiveness of UK businesses.

Possible impacts on the UK banking industry

Of particular interest to Barclays is the proposed *Guidance on Going Concern, Supplement for Banks*, which the FRC has developed in response to some of the Panel's recommendations. We acknowledge that the banking sector faces particular challenges in relation to going concern assessments that do not affect other companies. We agree that central bank support for a solvent and viable bank does not necessarily constitute a material uncertainty and we welcome the guidance provided in this area. We also welcome the emphasis the FRC has placed on the importance of financial stability and

acknowledgement of the danger that disclosing the use of central bank liquidity insurance facilities could undermine confidence in the bank in question.

The guidance identifies that disclosure of a material uncertainty in relation to going concern by a bank that is not in the Special Resolution Regime (SRR) may push them into the SRR or have other negative consequences. The guidance suggests a solution to this problem would be discussion between the directors of the bank, the auditors and regulators to "explore whether there are other areas of assurance that would enable a consensus judgement to be reached because that may avoid the need for the bank's entry into the SRR".

Whilst we welcome the suggestion that relevant parties should discuss these matters prior to disclosures being made, we believe that circumstances may arise where the public interest objective of financial stability will have greater weighting than the public interest objective of transparency in financial statements. For example, it should be possible for The Bank of England or the Prudential Regulation Authority to grant a bank relief from disclosing a material uncertainty in relation to going concern, if the disclosure would have a self fulfilling effect that could be harmful for the bank, the banking sector, or the financial system as a whole.

Possible impacts for all UK companies

The consultation rightly highlights that going concern disclosure in financial statements has a very specific accounting purpose relating to the basis of preparation of financial statements as well as a wider governance and stewardship role. From an accounting perspective it is necessary to draw a distinction between those entities that are a going concern and so prepare accounts on a going concern basis and those that are not. In broadening the going concern disclosures in financial statements, readers of accounts may derive inappropriate conclusions about three very different aspects of reporting:

1) whether the reporting entity is currently preparing accounts on a going concern basis
2) whether there are any material uncertainties relating to the entity's ability to continue as a going concern in the foreseeable future
3) how liquidity and solvency risk have been considered by the company and how this feeds into the going concern assessment process

We believe that the Panel's recommendations would be best implemented by focussing on the third aspect identified above. It could be harmful to UK companies if the first two aspects relating to internationally agreed accounting and auditing requirements were altered in the UK in the absence of equivalent changes in other jurisdictions. For example, guidance relating to the meaning of "the foreseeable future" and how preparers should determine whether there are material uncertainties to be disclosed, could increase the number of "emphasis of matter" disclosures in UK audit reports, with negative consequences for UK companies' reputations and competitiveness if the reasons are not well understood. The FRC should therefore engage in further discussion with international bodies to build consensus and ensure that a consistent approach is taken globally to addressing the first two aspects described above.

As a major provider of finance to UK companies, we are also concerned that the guidance is overly demanding regarding companies' sources of funding and the evidence required to support the going concern assumption. It states that boards should have a "high degree of confidence" that existing funding facilities will be available for the foreseeable future. By comparison the equivalent International Standard on Auditing suggests doubt may be cast on the going concern assumption if borrowings approach maturity "without realistic prospects of renewal or repayment". As a result, to support the going concern assumption UK companies may have to incur the cost of obtaining irrevocable borrowing facilities, which overseas competitors will not require.

If you would like to discuss our response in more detail, please contact David Bradbery (david.bradbery@barclays.com) at 1 Churchill Place London E14 5HP.

Yours faithfully

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