Marek Grabowski
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Financial Reporting Council
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Via email: m.grabowski@frc.org.uk

Dear Mr Grabowski

Comments on the Exposure Draft - Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)

BT Group plc ("BT") is one of the world's leading communications service companies, serving the needs of customers in the UK and in more than 170 countries worldwide. The shares of BT are listed on the London and New York Stock Exchanges and BT is a FTSE 100 company.

We welcome the opportunity to comment on the FRC's exposure draft for the Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland) (the exposure draft), which implement the recommendations of the Sharman Panel from June 2012. We note that the FRC is seeking views as to whether the proposed new Guidance and Supplement and the proposed revised auditing standards are appropriate and practical.

We support the FRC's objective of developing its guidance for directors on going concern assessment. Guidance should help to ensure that best practice is encouraged. We believe that providing further guidance to Boards on considerations that they should take into account when forming a going concern assessment should be useful for Directors.

However, we do have concerns with aspects of the proposals, primarily related to:

- the proposed extent of disclosures; and
- the practicality of applying certain aspects of the proposals.

We have set out our responses as general points and observations below.

1. Continuing to follow a principles-based approach

We believe that guidance in this area should remain principles-based rather than prescriptive.

2. Risk of increasing the length but not the quality or relevance of disclosures

We believe that the implementation of other initiatives in corporate reporting, such as the revisions to the UK Corporate Governance Code, are already increasing the transparency, relevance and extent of disclosures in a number of areas, including in relation to risks, and in relation to areas of focus for Boards and Audit Committees.

We are concerned that certain aspects of the proposed new guidance may lead to increasing annual report disclosures by companies and that these may become 'boilerplate' in nature if the guidance is too prescriptive. The FRC has encouraged companies to improve their disclosures of risks and uncertainties and better explain the relevance of these to the relevant company's specific circumstances. We do not believe that the proposed additional disclosures on going concern would significantly enhance shareholders' understanding of the going concern situation of the company. On the contrary, we believe that additional disclosures might overwhelm readers and potentially hide key meaningful information. We believe that the level of disclosures should be left to the directors' discretion within the guidelines that already exist.

In our view, there is a danger that certain instances of corporate failures during the credit crisis, predominantly in the banking sector, could lead to the introduction of excessive disclosure requirements that may not be relevant to the shareholders of the majority of entities that the requirements would cover. The proposals may impose unnecessary and impractical requirements on companies, in particular for those outside the banking sector.

We agree that disclosures about going concern need not only be highlighted where there are significant doubts about the entity's survival. We think it is of benefit that considerations of going concern, solvency and liquidity should be integrated within the discussion of strategy and risk to the extent that they are pertinent to the company's circumstances.

However, if liquidity and solvency risks represent significant risks to a particular organisation, they should already be captured under the current disclosure requirements around significant risks. Furthermore, the current funding and capital disclosure requirements cover a number of the areas that are included within the proposals. In our view it is likely to be more practical to focus on improving the disclosures that are currently required than to expand the requirements.

We agree that setting out the audit committee's view on the effectiveness of the process undertaken by the directors to evaluate going concern may be appropriate; it is possible however that the disclosures proposed around what the Board and Audit Committee have focused on, required by the updated UK Governance Code may have this effect.

3. Regularity of formal assessment

We agree with the underlying principle of encouraging a 'more continuous assessment of going concern... that is integrated with the processes for setting strategy, managing risks and running the business'. However, the guidance (para 10) further states that 'the Board's assessment of going concern should not be an exercise undertaken in isolation when preparing annual or half-yearly financial statements...but should be embedded in on-going business planning process, risk management framework and internal controls so that the significant solvency and liquidity risks are effectively managed'.

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We believe that for a Board to formally consider and document solvency and liquidity risks on an ongoing basis may not be practical. The underlying assessment and management of these risks on a day-to-day basis will lie with management. For a Board to formally document this twice a year may be as often as is reasonably practicable or indeed necessary, in the vast majority of cases. For example, if a company undertakes a full re-forecast twice a year, in our view it would be impractical to expect the Board to formally review the position more often than that.

Where a company faces significant liquidity or solvency risks, then the focus is heightened and the formal review could reasonably be expected to be more frequent. In other words, the regularity of the Board's formal assessment should reflect the level of risk and will be specific to the company's circumstances.

4. Definition of 'foreseeable future' and its use in reporting

We accept the rationale that the 'foreseeable future' should in principle be consistent with the periods appropriate for effective business planning and management. However, we do not believe this means that external disclosure should mirror the length of time used internally for those business planning purposes. We feel that this might negatively impact behaviours by management and Boards, by trying to enforce an equivalent forecasting timeframe for internal strategic planning purposes and the external assessment that is reported.

For example, we do not think that because a group's internal forecasts cover a three or five year period, the formal going concern assessment and the auditors' responsibilities for a review of such an assessment should have to cover the same period. We consider that for the vast majority of cases the current understanding of the 'foreseeable future' as being a year from the date of signing of the financial statements should be sufficient.

5. Impact on auditors' reporting

We are concerned that the proposed requirements to move towards an explicit statement in the auditors' report as to whether the auditor has anything to add to or emphasise in relation to the disclosures made by the directors will not be practical to implement.

Given the difficulty in auditing a future forecast rather than historical information, auditors are highly likely to wish to undertake more detailed audit procedures or greater due diligence before finalising their opinion. This could prove to be time consuming and costly for companies without resulting in a proportional benefit for shareholders, given it is likely that the auditors will still heavily caveat the statement.

We trust these comments are helpful. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely

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