

## Implementing the Recommendations of the Sharman Panel (January 2013)

### Submission from The Association of Investment Companies (AIC)

The Association of Investment Companies ('AIC') is the trade body representing an industry of some 400 investment companies, managing assets of around £100bn. Investment companies are closed-ended and domiciled both in the UK (investment trusts, Venture Capital Trusts) and offshore (predominantly in the Channel Islands); with the vast majority listed on the London Stock Exchange. Their business is to invest in a diversified portfolio of shares and securities, property and other assets to provide returns for their shareholders.

One aspect of investment companies, which is perhaps unique to the sector, is that some are launched with a fixed life. Others, also uniquely, are subject to continuation votes where shareholders will have an opportunity, for example every three years, to vote to wind up the company.

The purpose underlying the fixed life or continuation vote is to enable shareholders to be paid their share of the company's assets at or near net asset value rather than based on the then current share price. In these instances, there is usually no question that the company will have the necessary liquid resources to meet its liabilities as they fall due or be able to sustain its business model, strategy and operations and remain solvent. Indeed, the business model is to wind up and return assets or, at least, to offer this possibility, to shareholders.

The AIC is recognised by the FRC for the purpose of issuing Statements of Recommended Practice (SORPs) and the AIC's current SORP: Financial Statement of Investment Trust Companies and Venture Capital Trusts issued January 2009 deals with going concern in paragraph 11.

The reasons for responding to the Consultation Paper ('CP') are twofold. Firstly, we would emphasise, as stated above, that some investment companies will not be going concerns, not because they are in financial difficulty, but rather because their business model is to return money to their shareholders at a fixed date or a date determined by shareholders. The tenor of the CP is that companies not able to consider themselves going concerns are in severe distress and, whilst this may well be true in the majority of cases, it is not generally true for investment companies with limited lives or continuation votes. The AIC **recommends** that the FRC addresses this point in the guidance it issues.

Secondly, the CP makes recommendations regarding going concern assessments and states (in paragraph 7 etc. of Appendix 1):

*'Whilst the minimum period of twelve months from the date of approval of the financial statements will remain the primary focus for the board's consideration of quantitative analysis, they consider all available information about the future that goes beyond this period, including any arising from the following sources.  
Strategic or business plans.....'*

Our concern is that an investment company launched with a fixed life of say 10 or 15 years, and with every prospect of meeting the solvency and liquidity tests throughout its life, will nevertheless have to conclude, and state in its financial statements, that it is not a going concern from day one, simply because its business plan is to wind itself up on a fixed date. Similar considerations apply with regard to continuation votes. This would represent a different outcome from today's position where, based on the 12-month from date of approval

of the financial statements approach, such investment companies would be expected to adopt the going concern basis.

A conclusion that the investment company is not a going concern would also almost certainly result in a modified audit report and be confusing to shareholders and other users of the financial statements.

The AIC **recommends** that the FRC addresses this issue, and states in its guidance that the fact that a company has a fixed wind-up date or will be subject to continuation votes is not of itself sufficient reason to conclude that the company is not a going concern. Rather, the proximity of the wind-up date/continuation vote should be taken into account together with the likelihood that the vote will be in favour of a wind-up. In such cases, a period of twelve months from the date of approval of the financial statements is a key factor, and it will be rare for a company to conclude that it is a going concern if it is within 12 months of a fixed wind-up date or a continuation vote where the vote is expected to be in favour of a wind-up.

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