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By email only to m.grabowski@frc.org.uk

Dear Sirs

Implementing the recommendations of the Sharman Panel

We welcome the opportunity to comment on the above consultation paper, including the FRC's proposed 2013 Guidance, Supplement for Banks and corresponding changes to International Standards on Auditing (UK and Ireland).

In our view, going concern is one of the key areas for directors' risk assessment.

The FRC can already take credit for its existing work on going concern, both before and especially after the financial crisis. The FRC's 2009 Guidance requires a more structured assessment and clearer disclosure than anywhere else in the world and has already had a significant behavioural effect on the reporting of going concern. For example, our 2012 survey of financial reporting showed that 73% of listed companies had clearly adopted the FRC's guidance, with 14% of these disclosing an uncertainty that was not material, and 3% disclosing a material uncertainty. This suggests that the FRC's existing guidance already addresses, at least in part, recommendation 4 of the Sharman Panel. Therefore, as we explain in more detail below, we believe that the right way forward for the FRC is to build upon this existing guidance.

The FRC is right, however, to consider further improvements to improve the reporting of risk that impacts on going concern by companies – both to provide shareholders with more useful information and to reduce the expectation gap in this area, particularly the expectation gap in the area of financial services. For this reason, we are strongly supportive of the Sharman Panel's recommendations and agree with the FRC that they should be implemented in the UK. Equally, given the cross border nature of today's capital markets, it is important for the FRC to influence global standard-setting activity in this area.

We do, however, have some concerns as to the appropriateness and practicability of some aspects of the FRC's proposals.

- *Clarity:*
  Discussions with a wide range of practitioners within our firm and with clients suggest that in some areas the FRC's proposed Guidance is unclear and difficult to interpret. More work will be needed to clarify the definitions to enable consistent application, as well as making the concepts accessible to the lay reader.
- *Consistency with management of other risks:*
  The FRC's proposals for going concern risk assessment are not consistent with the wider risk guidance in their Guidance on Internal Control. These proposals call for a "high level of confidence" that going concern risks are being managed effectively; the wider Guidance on Internal Control does not. We believe that risk disclosures should be made in a comprehensive, coherent way.
- *Impact on the growth agenda:*
  We are concerned about the potential effect of certain aspects of the proposals on growth. Extending the period of the foreseeable future could cause companies to cash pile to provide a longer buffer rather than invest, or alternatively to pay increased finance costs to obtain longer committed facilities. The purpose of FRC Guidance on Going Concern should be to require directors to carry out a robust assessment of going concern risk, and to communicate this to stakeholders. As drafted, some of this material could lead to risk avoidance rather than risk management. Requiring companies to confirm that there are no material uncertainties, whilst unilaterally redefining this concept in a way that differs to that adopted in the rest of the world risks putting British businesses at a competitive disadvantage to non-UK companies.
- *SMEs:*
  We have a particular concern about the application of the material to private companies of all sizes. SMEs are addressed in four paragraphs in section 2 of the proposed 2013 Guidance and there is no guidance in the other sections. Private companies have, in our experience, had a good attempt at applying the 2009 Guidance. Given that the proposed 2013 Guidance is just that – guidance – rather than a standard or law, private companies may struggle to apply the current draft and choose to ignore it rather than attempt to follow it. We recommend that either:
  - the Guidance should be redrafted to start with material for all companies and then additional material for larger, more complex or listed entities; or
  - the Guidance as drafted should be Guidance for listed entities, and perhaps larger private companies, with a separate version for smaller entities.

  We also question whether applying this material in full to subsidiaries of listed companies, particularly when these are signed off at a different date to the group, is a proportionate response.
- *Effective date:*
  Not all companies will be ready to apply the portions of the 2013 Guidance relating to an ongoing process of risk assessment, given that the majority of companies will be half-way through their financial year when the Guidance is published. Application to June 2013 half yearly reports could be particularly challenging.

Given the above concerns, we believe it would be better if the FRC's 2013 Guidance built on the 2009 Guidance. Giving greater clarity as to the specific areas where directors need to do more than the 2009 Guidance or provide additional disclosure would be a significant help to both directors and auditors. Otherwise, we believe significant redrafting may be required to clarify what is expected of directors so that it can be clearly understood, confidently and consistently applied, and contribute to improved decision-making by companies and investors.

Our responses to the FRC's detailed questions are set out in Appendix 1 to this letter. In addition, we have set out a number of editorial and drafting suggestions in Appendix 2.

If you would like to discuss our comments further, please contact Richard Gillin (rgillin@deloitte.co.uk or 020 7007 0202).

Yours faithfully

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Appendix 1 – responses to consultation questions

Question 1: Do you agree that the Guidance appropriately provides the clarification recommended by the Panel as to the purposes of the going concern assessment and reporting and is appropriate? If not, why not, and what changes should be made to the Guidance?

We agree that paragraphs 1.3 and 1.4 are appropriate.

However, we believe that the supporting material in paragraphs 1.5-11 could be clearer:

- We suggest that two sub-headings should be included for financial reporting and stewardship.
- It would help lay readers of the Guidance to include paragraphs 2.26-27 under the financial reporting sub-heading to put this into context, together with an acknowledgement that many companies will also be required to make disclosures of liquidity risk.
- For the stewardship purpose, we suggest that a more useful order for this introduction would be:
    - the material in paragraphs 1.8-10;
    - an explanation that the strategic report (currently the directors' report) should set out the principal risks and uncertainties facing the company, which should have due regard to going concern risks, irrespective of whether these are significant or not; concluding with
    - the explanation from 1.5 of the additional responsibilities for listed companies; and
- Paragraph 1.11 would then sit logically below 1.4 and before the sub-headings.

Question 2: Do you agree with the description in the Guidance of when a Company should be judged to be a going concern? Do you agree in particular that this should take full account of all actions (whether within or outside the normal course of business) that the board would consider taking and that would be available to it; and that, if the underlying risks were to crystallise, there should be a high level of confidence that these actions would be effective in addressing them? Is the term 'a high level of confidence' sufficiently understandable? If not, why not, and how should the description or term be modified?

No. Discussions with a number of CFOs and Audit Committees, as well as with our own partners and audit practitioners indicate that neither the definition as a whole nor the term a "high level of confidence" are well understood.

We have explained in our covering letter that a more appropriate answer would be to retain the existing 2009 Guidance on reporting but to require improved disclosure of:

- the directors' assessment of solvency and liquidity risks, as part of the required disclosure of principal risks and uncertainties within the Strategic Report; and
- for listed companies, improved disclosure by the Audit Committee about the way in which going concern risk is managed as part of the assessment required by UK Corporate Governance Code ("the Code") provision C.2.1 and, where significant, their consideration of going concern issues and their resolution under Code provision C.3.8.

However, if the FRC do go ahead with the proposed 2013 Guidance then paragraph 1.12 could be made clearer without changing its meaning as follows:

A company is judged to be a going concern if there is a high degree of confidence that, having considered those risks which could be reasonably predicted and the actions which could be taken to mitigate them, the entity would:

- *have the necessary liquid resources to meet its liabilities as they fall due;*
- *sustain its business model, strategy and operations; and*
- *remain solvent*

for the foreseeable future.

We do, however, have some concerns about elements of this definition (both in the original drafting and in our suggested clearer version):

- we agree that both internally and externally generated shocks should be considered. However, we suggest that these use the term “risks” and if need be paragraphs 2.3-9 include an explanation of the source of those risks; and
- the definition refers to an ability to “sustain its business model, strategy and operations”. We are unclear how the requirement to be able to “sustain” interacts with actions that may be taken outside the normal course of business (see our response to Question 3 below).

We also believe that the use of the term “a high degree of confidence”, particularly when coupled with a binary conclusion that an entity is, or is not, a going concern is hard to understand. This is particularly true in the light of paragraph 2.33 which suggests that there will be circumstances when an entity is not a going concern but the going concern basis of accounting will nevertheless be appropriate. Discussions with others in the financial reporting supply chain suggests that they would expect a “high degree of confidence” to mean that there were no material uncertainties, yet this is not the conclusion suggested by paragraph 2.33.

Question 3: Do you agree with the approach the Guidance takes to the implications and nature of actions within or outside the normal course of business? Do you consider that the Guidance explains their nature sufficiently clearly? If not, why not and what changes should be made to the Guidance?

It is not clear from the definition, nor from section 2, how this would apply in a situation where a company was already changing its business model, or where it could do so to respond to risks. For example, is a retailer with a plan to close bricks and mortar stores and move online changing its business model, and hence not a going concern?

The reference to sustaining operations in the definition is also unclear. The implication of the material in paragraphs 2.30-31 is that a requirement to take an action outside the normal course of business that would significantly curtail a business would result in a material uncertainty, which would need to be disclosed in the financial statements. The currently accepted definition of going concern is different, whereby an entity that could survive significant downsizing (provided that there was a reasonable degree of certainty that such a downsizing would be achievable) would be a going concern.

Question 4: Do you agree with the approach taken to interpreting the foreseeable future and is this sufficiently clear in the Guidance? If not, why not and how should the Guidance be changed?

No. We have three concerns:

- Firstly, paragraph 2.21 states that when considering solvency, boards address longer periods through the general economic and specific business cycles. We agree with the point made in paragraph A1.12 that it may be hard to predict the evolution and impact of risks over the general economic cycle. We agree with the principle that shareholders *should* be informed about risks further out than twelve months. However, we think that in view of the difficulty of predicting risks over the longer term, this would be best achieved by:
  (a) retaining the existing 2009 Guidance position on the foreseeable future; and
  (b) requiring that the disclosure of principal risks and uncertainties within the Strategic Report include consideration of longer term solvency and liquidity risks. This could be developed within the forthcoming review of the FRC's Guidance on Internal Control.
- Secondly, it is clear from paragraphs 2.21-22 that there is no one period; rather different periods are used for different aspects of the assessment process. Given the requirement to describe the board's interpretation of the foreseeable future proposed in paragraph 4.8(a)(a), this could result in a lengthy disclosure which could confuse readers.
- Thirdly, application to subsidiaries could be burdensome. Traditionally forecasts are prepared for at least twelve months from the date of approval of the financial statements for the purpose of the group's going concern assessment. If subsidiary financial statements are approved later, it may be necessary to extend these forecasts. Extending the period of assessment may not only be complex at the group level but could also require multiple forecasting exercises to be carried out at subsidiary level.

Question 5: Do you agree that the use of the term 'going concern' in the phrase 'going concern basis of accounting' is sufficiently clearly distinguished in the Guidance from its use in the Code requirement for a statement that the company 'is a going concern' and from its use in the accounting and auditing standards in the context of material uncertainties about the company's 'ability to continue as a going concern'? Is it clear from the Guidance that the statement the directors are required to make under the Code (that the Company is a going concern) should reflect the board's judgement and is not intended to be absolute? If not, why not and what changes should be made to the Guidance or the Code requirement?

We agree that the terms as used can be distinguished.

We are, however, concerned that the differing uses of the words 'going concern' require some explaining to professional accountants and could well be even more confusing to a lay reader. This problem exists to a certain extent with the current terminology, but is managed by the recommendation in the 2009 Guidance that all of the going concern disclosures are brought together in one place. Under the 2013 proposals, there will potentially be three sets of disclosures: those that are required by IAS 1 / FRS 18 / FRS 102 / FRSSE in the financial statements; the relevant principal risks and uncertainties within the Strategic Report; and, for a listed entity, those that are required by the Listing Rules/Code.

We have recommended above that the 2013 Guidance should be an evolution of the 2009 Guidance, with the need for longer term going concern risks to be considered as part of the disclosure of principal risks and uncertainties. We have also highlighted in our response to Question 3 the confusion that may arise in the following situations: (a) an entity is not a going concern, there are material uncertainties, but the going concern basis of accounting is appropriate; and (b) an entity is a going concern (with a high degree of confidence), but that there are, nevertheless, material uncertainties.

If the FRC decides, nevertheless, to start from the current draft, we believe that there should be a requirement, rather than a recommendation, to cross-refer the different disclosures, and to explain how they are related.

Question 6: Do you agree that the judgemental approach in the Guidance to determining when there are material uncertainties to be disclosed is the appropriate interpretation of the relevant accounting standards? Do you agree that the factors and circumstances highlighted respectively in paragraphs 2.30 and 2.31 are appropriate? If not, why not and what changes should be made to the Guidance?

We agree with a judgemental approach and with the factors suggested in paragraph 2.30. However, the terms “more likely than not” in part (a) of the FRC’s definition and point (b) of paragraph 2.31 as drafted are less helpful because they leave a significant gap between the fact pattern in both (a) and (b) where there is a risk which is more than remote but not probable.

One of the achievements of the 2009 Guidance was to avoid damaging economic recovery by pushing too many companies into ‘material uncertainty’ disclosures with an emphasis of matter, whilst requiring disclosure of uncertainties that were not material, often with a description of as to how they were being managed in order that they did not become material.

In our view the 2009 Guidance has been effective in getting this balance right and applied in a broadly consistent way. One view of the proposed paragraph 2.31 will be that an uncertainty is only material if is more likely than not that the entity will be in severe economic or financial distress – with the result that an entity with (say) a 40% chance of becoming insolvent would not disclose a material uncertainty. Given that the disclosures in paragraphs 4.8 and 4.9 only apply to listed companies, and that this would not trigger any GAAP disclosures, this could result in a significant lessening of the “red flags” to readers of the financial statements.

Question 7: Do you agree that the interpretations adopted in the Guidance in implementing Recommendation 2(b) are consistent with FRS 18 and ISA (UK and Ireland) 570? If not, why not and what changes should be made to the Guidance or those standards?

We believe that these interpretations are not inconsistent with those in FRS 18 and ISA (UK and Ireland) 570. However, as explained in our response to Question 6, the disclosure requirements in paragraphs 4.8-4.9 only seem to apply to listed companies, which will mean that unlisted companies will be less likely to disclose uncertainties that are not material. Such disclosure is currently encouraged by the 2009 Guidance as part of giving a true and fair view, but the FRC’s proposed 2013 Guidance does not give enough weight to the potential need for disclosure on grounds of truth and fairness alone.

Recommendation 2(b) also calls for clarification “if possible in line with such international consensus”. Given that the IASB is now considering a narrow-focus amendment to IAS 1 on the disclosure of material uncertainties, and the IAASB is looking at auditor reporting of going concern as part of their auditor reporting project, we strongly believe that the FRC should seek to influence these global initiatives and only make unilateral changes if international progress is not forthcoming. Doing otherwise could harm the competitiveness of British businesses.

Waiting for international movement need not preclude making changes in 2013. Clarifying that the disclosure of principal risks and uncertainties facing the company would include such risks which, whilst not yet material, may evolve to threaten the company's survival, improvements to the FRC's Guidance on Internal Control and some auditor reporting changes (see Question 10 below) could be achieved in a short timescale.

Question 8: Do you agree that Section 2 of the Guidance appropriately implements Recommendation 3? Do you agree with the approach to stress tests and the application of prudence in conducting them? Do you agree with the approach to identifying significant solvency and liquidity risks? Do you agree with the description of solvency and liquidity risks? If not, why not and what changes should be made to the Guidance?

We agree with the FRC that consideration of going concern, liquidity and solvency should not just be an annual exercise. However, the degree of sophistication of any ongoing process ought to have regard to the level of risk. This does not seem to be how the 2013 Guidance is drafted. Paragraph 2.16, when read together with paragraph A1.28, suggests that stress tests and reverse stress tests must be carried out by all but the smallest companies (2.35-38).

The use of sensitivity analysis in situations where headroom on facilities is low has in our experience been well established since the 2009 Guidance was issued. In the financial services sector the idea of stress testing is now well understood. Our preferred option would be, as set out above, to start from the 2009 Guidance and add material explaining situations where stress testing and reverse stress testing may be appropriate (complexity of business models, interaction of variables used in sensitivity analysis, lower headroom), with guidance as to how this should be performed. If the FRC continues with the current drafting, we suggest that guidance be added indicating when the assessment process could be simpler.

We are concerned that these changes to one aspect of the directors' ongoing risk assessment process are being made in isolation and with a binary "yes/no" assessement. We believe it would be more appropriate to make them as part of a coherent revision of the FRC Guidance on Internal Control. This would call for risks to be managed and disclosed in a holistic fashion – in line with the intention behind paragraphs 4.2, 4.8(b) and 4.9 of the proposed Guidance. For example, risks around the prospects of an operation may, as time goes by, reduce so that they are no longer a principal risk to be dealt with in the strategic report, or conversely become a real threat to the company's very existence. Joined up assessment and disclosure would be helpful in acknowledging that there are shades of grey and reduce the focus on the existence or otherwise of material uncertainties.

Question 9: Do you agree that the approach taken in Section 4 of the Guidance in implementing the disclosures in Recommendation 4 is appropriate? Is the term 'robustness of the going concern assessment process and its outcome' sufficiently clear? Do you agree that the approach the board should adopt in obtaining assurance about these matters is appropriately reflected in Section 3 of the Guidance? Do you agree that the board should set out how it has interpreted the foreseeable future for the purposes of its assessment? If not, why not and what changes should be made to the Guidance?

We disagree.

One of the merits of the 2009 Guidance was that it called on all companies to include some disclosure relating to going concern, even in situations where there was no material uncertainty. The effect of the suggestion in the 2009 Guidance that such disclosure was often needed for a true and fair view to be given had the effect of bringing this disclosure within the scope of audit; likewise APB Bulletin 2008/10 provided guidance on the auditor challenge.

Paragraphs 4.8 and 4.9 are written in the context of the going concern disclosure required by the UK Corporate Governance Code and the Listing Rules. For companies that are not required to comply with the Code, we believe that the requirements of paragraph 4.6 will be read in a more minimalistic way than those of the 2009 Guidance, particularly for entities reporting under current (i.e. pre-FRS 102) UK GAAP where (other than for entities adopting FRS 26) there are no explicit liquidity risk disclosure requirements. We suggest that paragraph 4.6 should be supplemented with an explanation along the lines of that in the 2009 Guidance suggesting that where there are uncertainties that are *not* material, it may be necessary to disclose these and the reasons why they are not material in order to give a true and fair view. This will also mean that such disclosures require the auditor to obtain reasonable assurance about them, rather than reading them for inconsistency as would be the case if they were only included in narrative reporting.

We also believe that the section on narrative reporting should be re-ordered:

- Paragraph 4.9 should come first, and be redrafted to make clear that all but small companies must include disclosure of the principal risks and uncertainties facing the company within the Strategic Report, which should include significant solvency and liquidity risks.
- Paragraph 4.8 should then set out the additional disclosure required by the Code and Listing Rules.
- A new paragraph should then be added suggesting that the directors may need to explain the interaction between the disclosures in the financial statements and those in the narrative reporting. Without such an explanation, the idea of reporting that an entity is not a going concern but that the going concern basis of accounting remains appropriate (assuming that the FRC does not change their proposals to prevent this) will be confusing to readers.

Finally, section 3 is very much written from the perspective of a listed company.

Question 10: Do you agree that the proposed amendments to the auditing standards appropriately implement the enhanced role of the auditor envisaged in Recommendations 4 and 5? If not, why not and what changes should be made to the auditing standards?

Recommendation 5 calls for the FRC to *consider* moving UK auditing standards towards inclusion of an explicit statement as to whether the auditor has anything to add or emphasise in relation to going concern.

As we have explained in our response to the FRC’s February 2013 consultation on auditor reporting, we believe that the time is right to provide enhanced auditor reporting involving entity-specific commentary where this complements reporting by management and audit committees.

We agree that enhanced reporting relating to going concern will be appropriate. However, we are not sure that the FRC’s current proposals will provide the clarity that users are looking for:

- The FRC’s other proposals on auditor reporting call for the auditor to report on those risks which had the greatest effect on their scoping of the audit and on the way in which their audit was scoped to respond to such risks. Where there are potential material uncertainties relating to going concern this duty will already require the auditor to comment on going concern and how it has been addressed. Duplication may be confusing to a reader.

- Proposed paragraph 22C of ISA (UK and Ireland) 700 refers to the auditor having "…anything to add…". We believe that this should say "… anything *material* to add…" as it will almost always be possible to add something. We also believe that this duty is not, in fact, needed given the changes already made by the FRC in September 2012. By definition, if the auditor has anything material to add, they must either believe that management's and/or the audit committee's disclosure is inconsistent with their knowledge obtained during the audit or apparently misleading, and would therefore already be qualifying their opinion under paragraphs 22A and 22B of ISA (UK and Ireland) 700.
- Proposed paragraph 22C also suggests that the auditor may need to draw attention to going concern disclosure. No guidance is provided as to the threshold at which the auditor draws attention. It is presumably lower than that of a material uncertainty (given that in such situations there will already be an emphasis of matter in the auditor's report). We believe that in situations where the auditor might draw attention to going concern, but not have an emphasis of matter, the auditor will already be required to include a description of the going concern related risk and audit scope (see the first bullet above) under proposed paragraph 16A of ISA (UK and Ireland) 700.

We believe that the FRC's aims would therefore be best achieved by making explicit mention of going concern risks within their existing proposals on auditor reporting, rather than by introducing paragraph 22C. If the FRC wishes to see explicit reporting from auditors which would add confidence that they have considered going concern then we suggest that implementation of the proposals being discussed by the IAASB would be a better way forward. This would result in the auditor explicitly confirming that, in their opinion, they agreed with management's use (or not) of the going concern basis of accounting and they agreed with management's assessment that there were no (or some) material uncertainties relating to going concern – i.e. making explicit that which is implicit in their current opinion. A reminder that this was not a guarantee of continued existence would also help address the expectation gap.

Question 11: Do you agree that it is appropriate for the Supplement to confirm that central bank support for a solvent and viable bank does not necessarily constitute a material uncertainty? In particular, do you agree that central bank support (including under ELA) may be regarded as in the normal course of business where the bank is judged to be solvent and viable? Do you agree that the approach set out in the Supplement to assessing whether there is a material uncertainty is appropriate and consistent with the general approach in the Guidance? If not, why not and what changes should be made to the Supplement to the Guidance?

Yes. We agree with the FRC's proposals in relation to banks and welcome the fact that the FRC has worked with the Bank of England to develop proposals in this area.

Disclosure of dependence on central bank support is likely to be required by the existing 2009 Guidance but it is helpful for this new proposed Supplement to provide clarity as to the boundary between material uncertainty and not. We expressed our concerns about the disclosures required by unlisted entities in Question 9 above. We suggest that it would be helpful for the Supplement to reinforce the requirements in IAS 1, FRS 25 and FRS 102 to disclose how capital is managed. This reminder should require directors to consider whether disclosure of capital management and its interaction with going concern and liquidity is required for a true and fair view, regardless of whether the bank is listed and needs to make the disclosures required by paragraph 4.8.

Question 12: Do you consider the proposed implementation date to be appropriate? If not, why not and what date should the application date be?

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The proposed Guidance suggests that a going concern assessment process should have been in place throughout the period being reported on, rather than as a once or twice yearly financial reporting process.

The financial years of the first entities reporting under the guidance will have commenced almost five months before the FRC's proposals were issued. The FRC's current plan is that the Guidance is published in July, which means that for the large number of December year ends this will be over half way through their financial year. Given that this Guidance starts from a completely different place than the 2009 Guidance, significant effort will be needed to understand the requirements and put in place the necessary processes.

We recommend that:

- the effective date is delayed by one year. The Guidance could, however, encourage early adoption and suggest that entities applying the UK Corporate Governance Code for earlier periods should either explain that they have complied with the 2013 Guidance in full or that they have complied with the 2009 Guidance and set out the steps that they are taking to implement the 2013 Guidance; and
- if the effective date is not delayed then a transitional provision in the Guidance should make clear that it need not be applied to disclosures in interim reports in the first financial year to which it applies. Publication in July would otherwise cause significant disruption to the half-yearly reporting timetables of many listed companies whose half-yearly reports must be published by 31 August and for whom there will be only just over two months' implementation period in which to design a new process, operate it, draft the relevant disclosures and potentially subject them to auditor review.

Question 13: Do you believe that the Guidance will deliver the intended benefits? If not, why not? Do you believe that the Guidance will give rise to additional costs or any inappropriate consequences? For example, as compared with the 2009 Guidance, do you believe that the Guidance will give rise to fewer companies being judged to be a going concern and/or more companies disclosing material uncertainties? If so, what are the key drivers and can you give an estimate or indication of the likely cost or impact? Do you believe that such additional costs or impact would be justified by the benefits?

We believe that the 2009 Guidance has already had a significant impact on improving the quality of risk and going concern disclosures in annual reports and financial statements. It is less clear that the 2013 Guidance will achieve the same improvement. Furthermore we are concerned about the potential adverse effects on growth as a result of:

- the need for a "high degree of confidence" which may encourage directors to cash pile to provide a longer buffer rather than to invest, or alternatively to pay increased finance costs to obtain longer committed facilities to obtain such a degree of confidence;
- the costs of stress testing for all but the smallest of small companies; and
- the potential loss of user confidence resulting from the lack of one coherent 'story' being told in the annual report regarding going concern.

By contrast, we believe that our proposal that the FRC start from the 2009 Guidance, adding additional material that is clearly signposted by the size of company to which it applies, would result in lower implementation costs, increased user confidence and improved disclosure.

Question 14: Do you agree with the approach to SMEs in the Guidance? If not, why not and what changes should be made to the Guidance?

No. The material on SMEs is restricted to four paragraphs (2.35-2.38) in section 2 of the Guidance. Whilst the drafting of the document as a whole may be appropriate for the finance function of a larger listed company, it is not easily digestible by smaller companies. We suggest that the FRC redrafts the Guidance, adopting the incremental approach of the 2009 Guidance where material for entities of all sizes is included first, followed by additional guidance for larger / more complex entities and finally material for listed companies.

If the FRC do not take this approach, we suggest that there should be a box at the start of both sections 2 and 3 setting out the approach for SMEs, and that the disclosure requirements in section 4 are clearly labelled with the size and type of company to which they apply. Section 3, in particular, will need significant redrafting to apply to SMEs, particularly those where the board are the management of the company.

Question 15: Are there any other matters which the FRC should consider in relation to the Guidance and the Supplement? If so, what are they and what changes, if any, should be made to address them?

Yes. APB Bulletin 2008/10 was written in the context of the FRC's 2008 Guidance and was equally applicable to the 2009 Guidance. If the FRC adopt the significantly different approach in the proposed 2013 Guidance, this Bulletin will require revision as a matter of priority, given that auditors will be planning September year end audits before the 2013 Guidance is even published.

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Appendix 2 - further drafting suggestions

Paragraph(s)	Suggestion	Rationale
General drafting suggestions.	A 'definitions' section should be provided that either provides key definitions or cross-references to where they can be found.	The proposed 2013 Guidance uses a number of terms (e.g. "high level of confidence") with a specific meaning.
1.13-1.19	Redraft to reflect other changes proposed to sections 2-4. This redrafting should be clearer so that sections start with material applicable to all entities and then additional requirements for larger/more complex/listed entities.	This would allow board directors to read section 1 and understand what is being asked of them, and put the later detail in context.
1	Include a table summarising the effect of applying the two different reporting obligations and auditor reporting consequences in the style of that set out in paragraph 24 of the 2009 Guidance. Based on the current draft of the Guidance, this would have four lines: • Going concern basis of accounting appropriate, no material uncertainties and a high degree of confidence; • Going concern basis of accounting appropriate, material uncertainties exist but there is a high degree of confidence; • Going concern basis of accounting appropriate, material uncertainties exist and there is not a high degree of confidence; • Going concern basis of accounting inappropriate and there is not a high degree of confidence. We have suggested changes to the draft which might affect this summary but the principle is still valid.	In our experience, this table was extremely helpful in getting directors bought in to the idea of going concern reporting and demonstrating the effect of a threat to the company's significance becoming more complicated.
2.6	Include at least one example of a factor which might simplify the assessment – perhaps businesses with more predictable risks and significant cash reserves.	A sense that this is a balance would be easier to explain to directors.
2.31	Clearer drafting might be as follows:	The current drafting of paragraph 2.31 is

Paragraph(s)	Suggestion	Rationale
	2.31 It is a matter of judgement as to whether uncertainties are material. An uncertainty will usually be considered material if the directors assess that: *(a) the entity is already in economic or financial distress, or it is more likely than not that it will be within the foreseeable future;* *(b) that economic or financial distress is so severe that the directors will have no realistic alternative but to take actions outside the normal course of business to address it; and* *(c) the directors do not have a high degree of confidence that such actions will be both available to them and highly likely to be effective.*	very hard to follow.