

Catherine Woods  
Financial Reporting Council  
Fifth Floor  
Aldwych House  
71-91 Aldwych  
London WC2B 4HN

13 February 2014

Dear Ms Woods,

**Re: Consultation Paper on Risk Management, Internal Controls and the Going Concern Basis of Accounting**

We are writing as - and on behalf of - long-term investors to communicate our strong support for the original proposals set out by the Sharman panel on *“Going concern and liquidity risks: lessons for companies and auditors”* (June 2013).

In particular, we believe it is essential that directors be required to make a clear positive assertion that the entity in question will continue to be viable for the foreseeable future (i.e. a ‘stewardship going concern’ statement), with supporting rationale. We do not support the FRC’s current proposal to remove the requirement for such a statement (currently in C.1.3) from the Corporate Governance Code, and replace it with a broader statement around principal solvency and liquidity risks (proposed Provision C.2.1). In our view, this would materially weaken the shareholder and creditor protection offered by the existing going concern statement. Instead, the stewardship going concern statement needs to be clarified and strengthened. Specifically we would support a statement like that proposed by the IMA in its submission of 7th February, namely:

*“The Board should confirm in the annual report that it has carried out a robust assessment of the company’s condition, including its solvency and liquidity, based on current circumstances and any related contingencies and risks. It should also confirm that based on that assessment, it considers that the company will be able to meet its liabilities as they fall due, continue in operation for the foreseeable future and that, by reference to the audited accounts and financial controls, the company is a going concern. The Board should report any supporting assumptions and material uncertainties to these confirmations, and how they are being managed”*

Such a statement is of vital importance for two reasons. First, it provides explicit reassurance to the providers of capital over the company’s ability to continue to operate, and meet reasonably expected liabilities as they fall due. This is a matter of both liquidity and solvency, and should be rooted in a reliable view of the company’s capital presented by the entity’s audited accounts. Second, such a positive assertion - that specifically refers to the foreseeable future - makes it clear

that directors have a responsibility to shareholders and creditors to manage the company prudently, such that it will continue to be viable through the business cycle.

The behavioural impact should not be under-estimated (as was stressed by Lord Sharman in the Prologue of the Panel's final report), and would not in our view be achieved by the proposed requirement (Provision C.2.1) for directors to simply list the likely risks to solvency and liquidity, and set out how they are being managed. Of course, a considered (and non-boiler plate) disclosure of such risks provides valuable information for shareholders, and we would also expect - as suggested in the statement above - the Board to report material uncertainties. However, it is the positive assertion tied to the foreseeable future that generates the desired level of accountability and prudence that ultimately is vital to protecting capital and ensuring effective stewardship.

Critically, we do not believe the desired behaviour would be achieved by a more narrowly-defined going concern statement, such as that required by international accounting standards, that looks 'at least 12 months' ahead. It should be clear that a statement, which is intended to encourage responsible stewardship of assets through business cycles, requires a longer-term horizon. Setting explicit time frames does not sit well with the economic reality of varying business cycles and uncertainty. We expect companies to plan with a view to having to navigate downturns whenever they come.

It is also worth touching on the matter of 'confusion' around the dual usage of going concern for accounting purposes as well as for stewardship purposes, since this appears to be a central reason for abandoning the stewardship going concern statement. While we appreciate that the existence of a more narrowly-defined going concern statement for accounting may have allowed directors and auditors to gravitate towards this lower threshold for the stewardship version, we do not feel it is correct to view the two formulations of going concern as incompatible. Furthermore, we do not feel the right response is to drop the stewardship going concern statement. Rather, what is needed is to emphasise the fact that the stewardship going concern is the starting point for formulating a view on going concern for accounting. If directors are satisfied that an entity is a going concern from a stewardship perspective (with its emphasis on foreseeable future), then it should follow that they would also consider the company to meet the lower threshold associated with attesting going concern from an accounting perspective (at least 12 months).

We have focused specifically on the going concern statement in this submission as we believe that it is the most worrying aspect of the current FRC proposals. We have welcomed the FRC's effort to reach out to investors on this matter, and especially appreciated the meeting hosted by the FRC on the 29th January. While the views expressed in the letter reflect many of those aired at the meeting, we are writing to set out our support for the IMA statement above, and our reasoning for this.

If you do have any questions, or would like to arrange a further discussion on these matters, please feel free to contact Natasha Landell-Mills on [natasha.landell-mills@sarasin.co.uk](mailto:natasha.landell-mills@sarasin.co.uk), or tel: 0207 038 7269.

Yours sincerely,



Frank Curtiss, Head of Corporate Governance  
**RPMI Railpen**



Daniel Summerfield, Co-Head Responsible Investment  
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Kieran Quinn, Chair  
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Susan Martin, Interim Chief Executive  
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Guy Walker, Global Head of Stewardship & ESG Investment  
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Iain Richards, Head of Governance and Responsible Investment  
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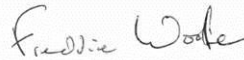
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