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

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Dear Mr Grabowski,

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

Threadneedle Investments is an international investment manager with £84.9 billion of assets under management, as at 30 September 2013, investing on behalf of individuals, pension funds, insurers, and corporations.

As a leading investment house and significant investor in UK companies on behalf of our clients, we welcomed the publication of the Sharman Inquiry Report and recommendations "Going Concern and Liquidity Risk: Lessons for Companies and Auditors" (June 2012). Its deliberations, conclusions and proposals were ones that we felt would assist in addressing concerns that had become apparent in this area and which we were supportive of.

In contrast the proposals that have now been outlined by the FRC for the reform of the going concern arrangements, are not ones we believe would be desirable as an alternative. We do not consider that they would achieve the same enhancements in ensuring a robust framework for and approach to going concern.

Not least, we do not consider that they would contribute adequately to the need to provide greater confidence and assurance over the prudence in and true and fair view of a company's financial accounts and position. This would run counter to the drive to improve the credibility of the financial reporting and accounting framework and the need to re-assert prudence, the overarching true & fair view basis of accounts, as well as the need for the financial reporting framework to properly reflecting the capital maintenance doctrine of accounting enshrined in company law.

More specifically, it would be a matter of concern to us if the FRC moved forward with splitting the elements relevant to a proper consideration of going concern and to effectively limit "going concern" to the basis of preparation of the financial statements as defined in accounting standards (standards which we and other investors have raised specific concerns about). We firmly support the Sharman Inquiry's focus and recommendation that the framework move to using a full (what is being termed the "common sense") scope of going concern, i.e. that the company will be able to meet it liabilities as they fell due. As part of this the limiting and muddled formulations currently used (e.g. around uncertainties) need to be clarified and strengthened.

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Reflecting the expectation gap that exists in connection with going concern reporting, which a significant number of respondents raised with the Sharman Inquiry, in our discussions with other investors, shared concerns around this re-emerge from the revised proposals. For example, around whether risks which threatened viability would be separately identified, or whether the directors or the auditor would properly confirm that, in their best judgement, the company was viable and disclose caveats or matters of emphasis relating to that.

Nor does it appear to us that the revised proposals could achieve the same clear enhancements as those the Sharman Inquiry in addressing the issues and concerns that were highlighted by both the House of Lords Economic Affairs Committee and the Parliamentary Commission on Banking Standards in relation to the effectiveness of audits and on banks, including those in relation to going concern.

In relation to the guidance on risk management and internal control, we believe that, in addition to enhancing the principle based elements of the guidance and disclosures (e.g. around actions to remedy any significant failings or weaknesses identified), the more process orientated and reliance-based limitations should be removed.

In conclusion, we are not supportive of the revised proposals on going concern that have been put forward in this consultation paper. We would ask the FRC to revert to the going concern approach envisaged by the Sharman Inquiry. As part of this we believe the FRC should retain the related Corporate Governance Code Provision (C.1.3) and, if required enhance it to make the full scope clearer.

Yours faithfully

Iain Richards
Head of Governance and Responsible Investment