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Dear Mr Grabowski

Going concern and liquidity risks: Lessons for companies and auditors

Thank you for the opportunity to respond to the Inquiry's call for evidence. I support Inquiry's aim of ensuring that the lessons of the financial crisis are captured.

The guidance issued by the Financial Reporting Council in 2009 established a helpful framework for directors in making and documenting the going concern assumption. However, I believe there are three important issues, not explicitly covered in questions set out in the call for evidence, which deserve the Panel's attention:

1. The existing gap between the view of some financial statement users that adoption of the going concern basis is in some way a guarantee of a company's continued existence and the reality of the limited assurance given by an assumption that necessarily depends on an assessment of future conditions. I believe that better organised disclosures as discussed below could help close this gap.
2. The way in which disclosures about the going concern assumption articulate with related disclosures such as risk factors, capital and liquidity. I believe that disclosures about the going concern assumption that emphasise the inherent uncertainties and in particular events that whilst extremely unlikely would pose a major threat to the company's viability might help to provide users with an appreciation of the assumption's limitation. These could be usefully integrated with risk factors, giving these more focus and reducing reliance on extensive boilerplate risk factors.

3. The apparent inconsistency between the going concern basis of reasonable expectation and the unqualified working capital statement for a prospectus. A 'clean' working capital statement requires the directors to confirm that in their opinion the working capital available to the company is sufficient for present requirements (a minimum of 12 months from the date of the prospectus) whereas the going concern assumption requires the directors to have a reasonable expectation that the company will continue in operational existence for the foreseeable future.

I would also urge the Panel to ensure that any proposals they make are proportionate and clearly designed to deal with real rather than perceived shortcomings in the existing framework. Some analysis of recent corporate failures, the proximate causes and the disclosures made in their immediately preceding financial statements about going concern would provide a useful context.

Yours sincerely



Brendan Nelson
Chairman, Group Audit Committee