

Marek Grabowski  
Secretary - FRC Panel of Inquiry on Going Concern and Liquidity Risk  
Financial Reporting Council  
Aldwych House  
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London

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Via email: [sharman.secretariat@frc.org.uk](mailto:sharman.secretariat@frc.org.uk)

Dear Mr Grabowski

**Response to the Call for Evidence - Going concern and liquidity risks: Lessons for companies and auditors**

We welcome the opportunity to comment on the FRC's Call for Evidence on '*Going concern and liquidity risks: Lessons for companies and auditors*' ('the Inquiry').

We agree that the lessons of the recent past should be captured, that the FRC's guidance on going concern and liquidity should be developed as necessary and that best practice should be shared. However, we do not consider that further disclosure in annual or interim reports is the most appropriate solution. In our view, there are already substantial going concern and liquidity related disclosure requirements with which companies have to comply. Further insight as to the perceived shortcomings in the current disclosure requirements would be helpful in this regard.

Our responses to specific questions in the Inquiry are set out below.

***Transparency of going concern and liquidity risk***

***1. What combination of information about:***

- the robustness of a company's capital;*
- the adequacy of that capital to withstand potential losses arising from future risks; and*
- the company's ability to finance and develop its business model,*

*would best enable investors and other stakeholders to evaluate the going concern and liquidity risks that a company is exposed to? How effectively do current disclosures provide this information?*

We certainly believe that our current going concern and liquidity disclosures are sufficient and consider that companies are already required to, and do, provide detailed maturity analyses of debt repayments and liquidity requirements. However, definitions and interpretations of 'capital' do vary widely. We would therefore welcome an initiative clarifying the definition of capital.

***2. What type of disclosures (if any) have been made into the market place outside annual and interim corporate reports about current stresses being experienced by the company and about the management of those stresses?***

*How do these disclosures interact with the requirement to disclose principal risks and uncertainties in the Business Review and the required disclosure on going concern and liquidity risk in the annual and interim financial statements?*

We have not made any disclosures outside our annual and quarterly interim financial reports about current stresses being experienced by the company, although we are unclear as to what the Inquiry means by 'stresses'. However, should any unexpected circumstances arise which are sufficiently material for the company, the directors would have to consider their obligations to disclose information in accordance with DTR 2 (Disclosure and control of inside information by issuers). In our view, the detailed disclosures in our annual accounts provide sufficient information for a user to understand the liquidity and funding risks of the group and how they are being managed. Should matters change significantly during the year, the Disclosure and Transparency Rules already provide a mechanism which requires immediate release of information, which might be considered inside information.

*3. Are there any barriers within the current corporate reporting environment to companies providing full disclosure of the risks associated with going concern and liquidity both within and outside the company's annual and interim reporting? Are there any changes that might be made to encourage companies to give fuller and more transparent disclosures in this respect?*

We do not believe there are any significant barriers. As stated above, we also believe that the existing going concern and liquidity disclosures requirements are sufficient and that companies are meeting these requirements.

*4. Given the current measurement, recognition and disclosure requirements of International Financial Reporting Standards (IFRS), how effective are IFRS financial statements in enabling stakeholders to evaluate the robustness of a company's capital in the context of the going concern assessment? Are there any changes that could be made to these requirements that would better enable them to do so?*

We believe that the current disclosure requirements of IFRS provide sufficient information which allows users of the financial statements to assess going concern and liquidity risks.

### **Company assessment of going concern and liquidity risk**

*5. What processes are undertaken by directors in making their assessment of whether the company is a going concern when preparing annual and half-yearly financial statements?*

- Which records and information are referred to in making this assessment?*
- What type of model does the company use to develop scenarios to stress-test the assumptions that have been made when making this assessment?*
- What types of risks are included in the going concern assessment: financial, strategic, operational, other? How are these presented in the assessment?*
- What is the role of the audit committee and risk management committee (where one exists) in this process and what inputs do they receive in order to carry out this role?*
- What impact has undertaking the going concern assessment had on the planning and management of the company?*
- How has the assessment of going concern and liquidity risks been incorporated into other aspects of company stewardship and reporting?*
- How effective is this assessment in addressing the robustness and adequacy of a company's capital and its ability to continue financing and developing its business model? What, if any, improvements could be made?*

We do not operate standalone processes to assess going concern. The information used for the assessment is derived from the group's medium term plan as are the sensitivities and risks applied in the assessment. The assessment of going concern is undertaken at the half-year and full year Audit & Risk Committee meetings, including the supporting models and key sensitivities. As the going concern assessment is fully integrated within our normal business practices, it has not had any 'additional impact' on the management of the group.

*6. What is different about the review of going concern when raising capital compared to the annual going concern assessment undertaken for accounting purposes? Could some of the different procedures be used in the annual accounting or audit assessments?*

The going concern assessment for accounting purposes is based on liquidity and funding requirements, as a minimum, for the 12 month period from the reporting date and is based on the same data as is used for business planning, including funding strategies. In our view, the annual accounting or audit assessment should be based on a 'through the eyes of management' approach, based on management's business plans with appropriate risk assessment and sensitivity testing.

*7. Does the company assess future cash flows and liquidity on a regular basis throughout the year? If so, how regularly is this done and is the information used any different to that used in the annual and half-yearly assessment for the purpose of preparing financial statements?*

Yes, we assess future cash flows and liquidity on a regular basis throughout the year, at least monthly. The base information is the same as that used in the half-yearly and annual assessments.

*8. In your experience, what issues have resulted in a heightened focus on the assessment of going concern? What was the nature of the risks that gave rise to these circumstances? Had these risks been identified in advance, and if so, how?*

In our experience, the issues which resulted in a heightened focus on the assessment of going concern ultimately arose from a general reduction in the availability and the price of credit in the market. In addition, the risk was heightened by the economic downturn in the global economy. We incorporated the impact of these risks into our going concern assessments and considered their impact through a number of different scenarios and sensitivities.

***Feedback on the Guidance for Directors of UK Companies in respect of going concern and liquidity risk***

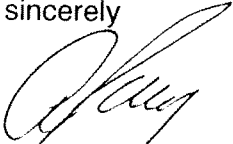
*9. Do you believe that amendments to the Guidance for Directors of UK Companies in respect of going concern and liquidity risk would be helpful? For example:*

- Guidance for directors on disclosures does not specify the language to be used, whereas auditors use more standardised wording. Is this helpful?*
- Is there a need for a clear boundary between the three types of company?*

We believe that the current guidance is sufficient.

We trust these comments are helpful. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Glyn Parry', written in a cursive style.

**GLYN PARRY**  
Director, Group Financial Control  
BT Group plc