Investment Management Association

ima

28 April 2013

Marek Grabowski
Director of Audit Policy
The Financial Reporting Council
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Dear Marek

Implementing the recommendations from the Sharman Panel's review

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of approximately £4.2 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, IMA members manage holdings amounting to 34% of the domestic equity market.

In managing assets for both retail and institutional clients, IMA members are major investors in companies whose securities are traded on regulated markets. The current economic climate has shown how quickly companies can unwind and it is important that investors, as the providers of risk capital, understand the risks to a company being able to continue as a going concern. However, investors have long been concerned about the lack of transparency as to the uncertainties that underlie a company's going concern assessment.

Thus IMA welcomes the FRC seeking to improve transparency and requiring companies to integrate the going concern assessment into their on-going processes for setting strategy, risk management and business planning and improve transparency when there are material uncertainties. Specifically, the FRC is proposing that the boards of companies that report under the Corporate Governance Code should:

- consider threats to the company's business model and capital adequacy for more than twelve months and through the economic/business cycle;
- develop a high level of confidence that solvency and liquidity risks can be managed effectively for at least twelve months from the approval of the accounts; and

- disclose material uncertainties, particularly about a company's solvency and liquidity, together with details on how they are being managed, and that the going concern assessment is robust.

In addition, it is proposed that a company's auditor considers the board's assessment and disclosures, and confirms whether it has anything to add or wants to draw attention to.

These proposals should help address investors' concerns and improve the transparency of both companies and auditors on this issue. Whilst, initially there may be some apprehension about these disclosures, once they are better understood and become standard practice, investors will benefit from the greater honesty and clarity they will bring. Where we do have reservations, these are set out below.

- As noted in our opening paragraph, today UK asset managers only hold around 34% of the UK equity market in that increasingly it is held by overseas investors.

  The proposals are likely to result in more reporting by UK companies of going concern "material uncertainties". Whilst UK investors will welcome the improved transparency, overseas investors may not necessarily understand what is being reported which could cause them to be cautious in their asset allocation and impact companies' ability to attract overseas finance. In view of this, we believe the operation of the guidance should be kept under review.

- The UK asset management industry invests internationally – around 63% of all equities managed are listed overseas. In places the proposed guidance introduces new terminology and seeks to redefine certain concepts that are in IFRS. For example, in relation to " material uncertainties" we understand that the IASB is considering what should be disclosed in relation to a company's ability to continue as a going concern under IAS 1.

  Ideally concepts and terminology should be standardised in corporate reporting and auditing standards internationally to avoid unnecessary confusion and complexity. Moreover, in developing policy on corporate reporting and auditing, it would be helpful if the FRC sought to influence the international agenda and ensure there is comparability globally as opposed to developing a separate regime for UK companies.

- We do not consider that there should necessarily be a specific supplement for banks as proposed. Whilst, liquidly and solvency issues can escalate rapidly for the banking sector, there are other industries that have specific issues, for example, telecoms and extractive industries. Specific requirements for banks could open the possibility for a raft of industry specific standards that could compromise comparability.

We trust the above is self-explanatory. However, please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

Liz Murrall
Director, Corporate Governance and Reporting