# Implementing the Recommendations of the Sharman Panel

## Response to the FRC's revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)

### Introduction

1. The ABI is pleased to respond to the FRC's consultation on implementing the recommendations of the Panel of Inquiry led by Lord Sharman.

2. The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 and today has over 300 members, accounting for some 90% of premiums in the UK. As institutional investors with assets under management of around £1.6 trillion, our members are major users of accounts and corporate financial reporting.

### ABI Comments

3. We fully support the FRC's aim to ensure that company boards consider, manage, and report on going concern risks. This is integral to good governance. Accordingly, we welcome many aspects of the proposed guidance.

4. In our response to the Sharman Panel inquiry, we emphasised the importance of balancing the needs of both shareholders and creditors given the varying time horizons over which they may need to consider a company's viability. The proposed guidance reflects these varying needs. The clarifications made regarding interpretation of "the foreseeable future" are welcome, in particular from the perspective of solvency. We agree this period may well extend beyond one year, giving due regard to the business strategy and environment.

5. Members support the increased incorporation of concepts of stewardship and prudence in preparing report and accounts for shareholders. However, these notions should be applied in substance through the judgements made in preparing the accounts and narrative and governance disclosures. These judgements should then inform the consideration of going concern. Many of the changes to the guidance help to clarify the role of directors in informing and developing going concern judgements and therefore to give effect to recommendation 2(b). Nonetheless, we are concerned that the creation of two distinct purposes of going concern is unnecessary and risks creating confusion.

6. Rather than creating a separate purpose, we believe it is important to underline the importance of the Board's stewardship responsibility in establishing the information needed for the financial statements to give a true and fair view. This is likely to require clear cross-references to elements of narrative and governance reporting,

any review of accounting policies undertaken by the Audit Committee, and any clarification of the material uncertainties that arise from these disclosures in establishing going concern.

7. Investors want to understand the process the directors have gone through in reaching their judgment that the company remains a going concern. The quality of directors' evaluation and disclosure of what directors have done to address any concerns is important. By contrast, additional 'boilerplate' disclosures would be of no value.

8. We believe that 2.28, 2.29, 2.30 and 2.31 will give effect to this aim under a single purpose, but may become confused under two distinct purposes. We recommend that 1.4 should be revised to reflect the importance of the stewardship responsibility, and associated disclosures, underpinning and informing the financial judgement.

9. The consideration of long-term solvency in the context of business and economic cycles is welcome. However, consideration of how to improve and enhance disclosures on such judgements should be considered in other narrative reporting guidance such as the FRC's *Reporting Statement, Operating and Financial Review* and the IASB's *Management Commentary*. From these disclosures, it would be entirely appropriate to cross-reference solvency judgements in the going concern statement and give context to material uncertainties. This approach would help to meet more clearly investors' need for comprehensive and consistent information for stewardship purposes and resource allocation decisions.

10. We welcome the changes designed to implement the proposals originally set out in the FRC discussion paper *"Effective Stewardship – Enhancing Corporate Reporting and Audit"* and believe that these meet Recommendation 4 of the Panel.

11. We consider that the proposed implementation date is challenging for companies with 30 September 2013 year-ends which would have only a very limited time to prepare following the publication of the final guidance.

12. Finally, we do not consider that there should be a specific supplement for banks as proposed. Whilst liquidly and solvency issues can escalate rapidly for the banking sector, a range of other industries may 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.

Association of British Insurers
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