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Our Reference: TECH-CDR-811

24 November 2008

Dear Sir,

**Going Concern and Financial Reporting:  
Proposals to Revise the Guidance for Directors of Listed Companies**

We welcome the publication of updated guidance from the Financial Reporting Council (FRC). We agree with the FRC that the guidance represents no additional burden to the Boards of Directors of companies, and is appropriate and relevant in the current economic climate. We also note that the primary responsibility for the assessment of whether a company is a going concern for the foreseeable future rests with the Board. It is the role of the auditor to test the validity of that assessment.

We note that the assessment is made at a specific point in time, and with the information available to the Board at that time. It is not, and cannot be, a guarantee that the organisation will be a going concern for the foreseeable future. We suggest that this point should be given more emphasis in the guidance.

While there can be no such guarantee that a company will remain a going concern, shareholders and other stakeholders have some justification in expecting that, in the absence of some unforeseeable catastrophic external event taking place after the signing of the financial statements, the company will be able to continue as a going concern. Recently, there have been examples where companies have failed a few months after the signing of the financial statements as a result of circumstances which probably were foreseeable when the financial statements were signed. In consequence, people are right to ask both whether the going concern guidance is working as it should and how much faith can be put in a set of accounts.

While the guidance is directed at the directors of Listed companies, we consider that its scope should be widened to the Boards of Directors of all companies, and that the current wording of the guidance should be strengthened, for example in paragraph 8 of the guidance, and the use of “may”. Additionally for UK GAAP preparers, FRS 18, paragraph 21, requires an entity to prepare its financial statements on a going concern basis, unless it is being liquidated, it has ceased trading, or the directors have no realistic alternative but to liquidate the entity or to cease trading. And for IFRS preparers, IAS 1, paragraph 23, requires management to assess the entity’s ability to continue as a going concern. Financial statements have to be prepared on a going concern basis as for UK GAAP.

We agree with the FRC that the definition of “foreseeable future” should as a minimum be 12 months from the date of signing of the financial statements, as opposed to the last balance sheet date. Good practice in all companies will be to follow rolling forecasts and budgets, and therefore this should not represent an onerous requirement in and of itself. We do understand, however, that such a requirement is challenging in the current economic climate.

Paragraphs 22, 43 and 44 lead to some ambiguity about where the assessment of going concern should be disclosed, seeming to suggest either in the Business Review section of the Directors’ Report or as a note to the financial statements. While we have no objection to the assessment appearing in two places in the financial statements, we consider as a minimum it should be included in the accounting policies note, with appropriate cross referencing as necessary.

We are concerned at the comparative lack of emphasis in the guidance on half yearly results. For listed companies these results have a status for investors, which is almost comparable to the full year figures.

We disagree with the suggestion of a fourth basic conclusion. We suggest the removal of the second and the insertion of the third basic conclusion is more appropriate. However we are sympathetic to the sentiment underlying Question 4 of the consultation, in the sense that disclosures should be based on principles and judgement of the Board of Directors, and not prescribed. To follow too prescriptive a route would only lead to semantic discussions about “material uncertainties” and “significant doubt” and the consequent danger of boiler plating disclosure.

Specific issues with the five questions are as follows.

**Question 1: In the light of these developments, do you believe that there is a continuing need for separate Guidance for Directors about Going Concern?**

Yes.

**Question 2: Do you believe that the proposed amendments are sufficient and appropriate? If not, what alternative amendments do you believe need to be made and why?**

Paragraph 13 identifies three events that are unlikely to be compatible with the going concern basis. Presumably this is not an exhaustive list, since there is another that applies to investment trusts, where the company is set up with a limited life with the intention at the end of the company's life of, for example, one or more of liquidation, restructuring, or roll-over into a new investment trust or other investment fund.

Paragraph 31 states that, "The onus is on the directors to be satisfied that there are likely to be appropriate and committed financing arrangements in place." What is meant by "likely to be"? Does it mean "more likely than not", i.e. 51% probability, or something more, for example, "nearly certain"?

Paragraphs 31 and elsewhere contain references to IFRS, particularly IFRS 7, but also the IASB Framework, IAS 1, and IAS 36. However, not all listed companies use IFRS. There are many investment trusts without subsidiaries that still use UK GAAP. We suggest that UK GAAP references – and requirements if different from the IFRS version – should also be included.

Paragraph 44 states that, "...they (directors) will need to consider making appropriate additional disclosure in the Business Review..." In the current financial situation we believe the words "need to consider" should be strengthened, particularly with the requirement for companies at least, to give in the directors' report "a description of the principal risks and uncertainties facing the company".

**Question 3: Do you believe that any significant parts of the proposed guidance can be deleted as unnecessary? If so, which paragraphs can be removed and why?**

No.

**Question 4: Do you believe that it continues to be appropriate to include standardised text within the proposed Guidance for Directors indicating how directors might explain their use of the going concern basis of accounting?**


Yes, so long as it is clear that the text is clearly stated to be:-

- illustrative of the scope, breadth and depth of the disclosure;
- not set out as a template to be used in the particular circumstances to which it relates; and
- tailored to the particular circumstances of the entity

**Question 5: Do you believe that it continues to be appropriate for the Guidance for Directors to require directors to consider whether an additional disclosure should be given where they have not considered a period that extends to at least twelve months from the date of approval of the financial statements?**

Yes. However we note that there is no requirement in IFRS or UK GAAP for the Board of Directors to state that they have not gone for a 12 month period from the date of approval of the financial statements.

We trust you find these comments of help and would be pleased to discuss them further with you.

A handwritten signature in black ink, appearing to read 'S. Priddy', is shown on a light grey background.

Steve Priddy  
ACCA Director of Technical Policy and Research