



Going Concern and Financial Reporting

The ABI's Response to the FRC's proposals to revise the guidance for directors of listed companies

Introduction

The Association of British Insurers (ABI) is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.

The ABI is pleased to respond to the consultation that the FRC is conducting on its general guidance. This is a subject of heightened interest in the current economic and business environment. We note that the FRC is also undertaking separate work that responds more specifically to the shorter-term challenges. These various initiatives in combination demonstrate an appropriate focus by the FRC on an important subject, which we welcome.

General Comments

The obligation on directors of listed companies to confirm their belief that the enterprise is going concern and that it is appropriate for accounts to be drawn up on this assumption is an important component of the governance and accountability framework of the listed sector. The present consultation, designed to update guidance and ensure its continuing suitability for the next several years, is important and, accordingly, we welcome the FRC's publication of this consultation paper.

The present guidance remains, in our opinion, fit for purpose with only modest refreshment of the text needed. In the currently difficult economic and financial conditions there will be challenges to be met around going concern judgments. We welcome the fact that the FRC is also working on supplementary guidance that will assist in this regard. Current economic conditions do not appear to us to require an acceleration of overhaul of the basic guidance.

Questions for Consultation

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, we consider that the value of guidance for directors on going concern remains clear and we support its retention.

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?

The existing guidance continues to serve its purpose well and remains 'fit for purpose'. We consider that only relatively modest changes are required in order to refresh the guidance and we largely agree with the FRC's suggested textual amendments.

The one aspect on which we are not convinced the case has been made for a change in specification is in respect of the various basic conclusions that Paragraph 47 of the consultation document suggests can be reached by directors. The draft rewrite provides an additional category of circumstances where there are considered to be material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern. We feel this may not be helpful and that retention of the existing formulation would seem preferable. At present a clear choice must be made, on the one hand, between circumstances of doubt but where it is appropriate to use the going concern basis in preparing financial statements and, on the other, circumstances in which the company is unlikely to continue in operational existence making the going concern an inappropriate basis for drawing up the accounts.

We emphasise that the going concern statement of itself is a piece of standardised text that evidences a judgment regarding categorisation. This is no substitute for a full measure of quality narrative disclosure that enables shareholders and other users of accounts to understand the position of, and prospects for, the company in question.

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?

Further to our answer to Q2 above, we do not consider that significant parts of the guidance should be deleted as unnecessary.

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.

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. We firmly believe that the FRC would be right to conclude that going concern statements should continue to be made by reference to a 12-month horizon from the date of making the statement. This is a crucial part of the reporting and governance framework and shareholders would expect that assurance is broadly given over the time period up to the point at which the next annual statement is made. We do not consider that delay in publication of accounts and of the statements appended to them should be allowed to result effectively in a reduced obligation to report on the soundness of the going concern opinion. Where there is doubt about the ability of the preparer to remain as a going concern for at least 12 months appropriate disclosure of this fact is necessary.

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