



**The Quoted
Companies Alliance**

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9 December 2008

Dear Mr Leonard,

GOING CONCERN AND FINANCIAL REPORTING - PROPOSALS TO REVISE THE GUIDANCE FOR DIRECTORS OF LISTED COMPANIES

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (SQC), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m.

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in thirteen European countries.

RESPONSE

Thank you for the opportunity to discuss this with yourself and Ian recently and below is our formal response, but if you wish to discuss further any of the points raised, we will be happy to do so.

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

Yes, we believe that there is a continuing need for separate Guidance for Directors about Going Concern, so long as it does not contradict anything within IFRSs. We believe that this document would give a board greater clarity and consistency when evaluating the going concern basis.

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?

We believe that the addition of a fourth basic conclusion that directors can reach (Paragraph 47, Content of disclosure) does not clarify, but adds more confusion for directors when evaluating the going concern basis.

We would prefer only three basic conclusions that can be reached, as to avoid any confusion between what constitutes 'doubt' (conclusion 2) or 'significant doubt' (new conclusion 3), 'factors' (conclusion 2) or 'material uncertainties' (new conclusion 3), and 'operational existence' (conclusion 2) or 'going concern' (new conclusion 3). There is clearly a very grey area between what constitutes 'doubt' and 'significant doubt', and as the latter will lead to an emphasis of matter paragraph in the audit report this could cause considerable debate between auditors and directors.

If the objective of the addition here is to make the conclusions more in line with the changes in accounting standards, in particular IAS 1 and IFRSs, then we would propose keeping the new third conclusion (*they have identified material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern and so additional disclosures are required by IFRSs*), but taking out the second conclusion (*they have identified factors which cast doubt on the ability of a company to continue in operational existence for the foreseeable future but they consider that it is appropriate to use the going concern basis in preparing their financial statements*).

If, as we suggest, the second conclusion 'doubt' is removed then paragraphs 50 to 51A would need to be reconsidered in light of this change, and there may be other impacts on the document elsewhere.

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

As stated previously in our response to Question 2, we would prefer only three basic conclusions that directors can reach when evaluating going concern, and suggest removing the second conclusion (*they have identified factors which cast doubt on the ability of a company to continue in operational existence for the foreseeable future but they consider that it is appropriate to use the going concern basis in preparing their financial statements*), and replacing it with the new third conclusion (*they have identified material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern and so additional disclosures are required by IFRSs*).

We also believe that it would be useful to include the Annex of the consultation paper with the updated Guidance for Directors of Listed Companies on Going Concern, as it provides a useful background in the recent developments in accounting standards.

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, standardised text is useful because it sets a mark for what directors should consider and disclose when reaching a conclusion on going concern. However, we would caution against including more than one or two lines of examples to avoid accidentally creating 'boilerplate' going concern conclusions.

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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 believe that this is fundamental when considering going concern.

Yours sincerely,

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive style and is underlined with a single horizontal line.

John Pierce
Chief Executive