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Dear Steven

### **Going Concern and Financial Reporting**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA is a global professional body representing accountants in business. CIMA represents over 164,000 members and students in 161 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

We believe that national or regional departures from IFRSs represent a significant risk to the development of global standards and have resisted efforts to 'carve-out' sections of international standards to suit particular constituencies. In our opinion, the only bodies that should make mandatory determinations of areas covered by IFRS are the IASB and its interpretation committee, IFRIC.

Paragraph 25 of IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. *"An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or cease trading, or has no realistic alternative but to do so. If management are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern."*

We consider that paragraph 25 of IAS 1 clearly specifies the principles that should be applied in respect of going concern and see no reason to complicate the matter with additional requirements. We believe that mandatory requirements in the Listing Rules that go beyond IFRS in an area covered by IFRS add to complexity in corporate reporting and should be avoided. However, we believe that there is a place for guidance to assist those involved in the determination of an entity's 'going-concern' status. The guidance should be very explicit that it is not attempting to explain how to apply the provisions of IFRS but is there to assist directors in fulfilling their corporate governance responsibilities.

It is not usually the case that an entity either definitely is or definitely is not a going concern. More usually there is a risk that the entity will not be able to continue as a going concern and this risk may be low, medium or high. In this respect, we encourage Directors to provide, using their own words, an explicit discussion of these risks. The guidance should also encourage directors to cross-reference their statements in the business review section to the relevant disclosures in the financial statements rather than repeat information that is already in the financial statements as required by IFRS.

We note from the consultation document that the FRC believes that the requirement to consider a period of at least twelve months from the date of approval of the financial statements is superior to the requirement in IFRS. We would prefer that the FRC approaches the IASB seeking a change to

IFRS, probably through the IASB's Annual Improvements process, rather than to continue to unilaterally impose additional requirements.

We would prefer that the proposed additional going concern conclusion contained within paragraph 47 is removed. We believe that any change in this regulation risks increasing perceived uncertainty leading to reduced confidence in organisations generally. We believe that this is a real concern and one which in the current economic climate needs to be addressed by regulators and auditors with great sensitivity.

We attach responses to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

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## **Responses to the specific consultation questions :**

### ***Q1: In light of these developments, do you believe that there is a continuing need for separate Guidance of Directors about Going Concern***

The FRC has recognised that very significant changes have been made to accounting standards that must be applied by directors of listed companies when preparing their consolidated accounts since the publication of the original Guidance for Directors about Going Concern in 1994. We believe that paragraph 25 of IAS 1 sufficiently expresses the requirement to disclose the basis of preparation of the financial statements. We are, however, in favour of additional non-mandatory guidance for directors on the process to be followed when making the determination as to whether to draw up accounts on a going concern basis or not.

### ***Q2: 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?***

No we do not agree that the proposed amendments are sufficient and appropriate.

We believe that the guidance should be very explicit that it is not attempting to explain how to apply the provisions of IFRS but is there to assist directors in fulfilling their corporate governance responsibilities. The guidance should also encourage directors to cross-reference their statements in the business review section to the relevant disclosures in the financial statements rather than repeat information that is already in the financial statements as required by IFRS.

### ***Q3: 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?***

We note from the consultation document that the FRC believes that the requirement to consider a period of at least twelve months from the date of approval of the financial statements is superior to the requirement in IFRS. We would prefer that the FRC approaches the IASB seeking a change to IFRS, probably through the IASB's Annual Improvements process, rather than to continue to unilaterally impose additional requirements.

We would prefer that the proposed additional going concern conclusion contained within paragraph 47 is removed. We believe that any change in this regulation risks increasing perceived uncertainty leading to reduced confidence in organisations generally. We believe that this is a real concern and one which in the current economic climate needs to be addressed by regulators and auditors with great sensitivity.

### ***Q4: 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 for accounting?***

We believe that corporate reports contain too many boilerplate disclosures. We believe that standardised text may be helpful to directors when considering their own disclosures but these risk promoting further boilerplate in corporate reports. It is not usually the case that an entity either definitely is or definitely is not a going concern. More usually there is a risk that the entity will not be able to continue as a going concern and this risk may be low, medium or high. In this respect, we encourage Directors to provide, using their own words, an explicit discussion of these risks.

### ***Q5: 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?***

We believe that unilateral alterations to the provisions of IFRS add to the complexity of financial reporting by adding additional sources of accounting requirements. On principle we prefer that the requirements on IFRS are not altered unilaterally without good reason. IFRS requires that

management take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. We do not believe that the time difference between this IFRS requirement and the requirement contained in the current guidance is sufficient to warrant a departure from IFRS.

We note from the consultation document that the FRC believes that the requirement to consider a period of at least twelve months from the date of approval of the financial statements is superior to the requirement in IFRS. We would prefer that the FRC approaches the IASB seeking a change to IFRS, probably through the IASB's Annual Improvements process, rather than to continue to unilaterally impose additional requirements.