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Dear Steven

**EXPOSURE DRAFT - GOING CONCERN AND LIQUIDITY RISK: GUIDANCE FOR DIRECTORS OF UK COMPANIES**

We welcome the opportunity to comment on the Exposure Draft ‘Going Concern and Liquidity Risk: Guidance for Directors of UK Companies’ (‘the exposure draft’). BT is one of the world’s leading communications service companies. In the UK we are the largest communications service provider to the residential and business markets. We have operations in more than 170 countries around the world where we are also a supplier of networked IT services to the government departments and multinational companies.

In general we are supportive of the proposals of the exposure draft however we are concerned that the “think small first” approach may create an unnecessary burden, in particular where companies are part of a solvent listed group. In such instances we believe the group level assessment should form a key element of the assessment made by the directors of the subsidiary company’s considerations in assessing going concern. We are concerned that the proposed approach is interpreted by auditors as a minimum requirement resulting in a “tick box” approach rather than encouraging the directors to consider all the available information in a proportionate manner. We are also concerned that auditors of small companies may interpret this as being mandatory rather than being guidance. Accordingly we would like to see explicit reference to the need for directors and auditors to consider what is appropriate in the circumstances of the particular company.

Our detailed responses to specific questions raised, which are set out in the Appendix to this letter focus on our particular concerns with regard to subsidiary companies of solvent groups.



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We trust these comments are helpful in contributing to your deliberations. If you have any further questions or would like to discuss these comments further, please do not hesitate to contact me.

Yours sincerely



GLYN PARRY  
DIRECTOR OF GROUP FINANCIAL CONTROL

1 Do you agree that the FRC should provide guidance on going concern relevant for directors of all companies? If so, do you believe that the Exposure Draft achieves this in a reasonably balanced way?

We agree that it is appropriate that the FRC should consider providing guidance on going concern relevant for directors of all companies. However, we are particularly concerned that the “think small first” approach will create an unnecessary and significant burden where subsidiaries are part of a solvent group. In such instances we believe the group level assessment of going concern should form a key element of the directors considerations in assessing going concern at the subsidiary level, in addition to the group’s policy and approach to supporting subsidiaries.

In determining the going concern considerations of a company, we would therefore encourage the FRC to include guidance relating to the specific circumstances of a subsidiary company of a group. The trading models of such companies are often closely interlinked to that of either the parent company or another group subsidiary and as such, the going concern considerations of such companies cannot be considered in isolation to that of the group. Furthermore we consider that the extent of analysis required in order to satisfy the going concern presumption should be commensurate to the level of risk associated with subsidiaries of groups.

We propose that the going concern assessment of a subsidiary should vary depending on two particular criteria, namely:

- a) Whether or not the group level assessment has concluded a going concern presumption; and;
- b) whether the operations of a subsidiary are dependent on or autonomous from the wider group.

Where the group has concluded a going concern presumption and the operations of subsidiary are highly dependent on the wider group, we believe the level of analysis should be more limited and should consider factors such as support received from the parent (perhaps in the form of a parental support letter), the nature of future trading relationships with group subsidiaries and, where available, future trading profitability statements.

Where the group has not concluded a going concern presumption, we believe that the going concern considerations of subsidiaries would be no different to that of entities trading on a standalone basis and as such the guidance included in the proposed exposure draft is appropriate.

The level of dependency on or autonomy from other group companies will also be a critical factor in determining the extent to which the assessment of going concern for the subsidiary should also rely on the assessment at a group level. For example, trading subsidiaries which are still heavily reliant on funding from other group companies for liquidity would need to consider the group’s overall liquidity position.

Hence the degree of assessment and evidence required would depend on where in the above criteria the subsidiary was positioned.

2 Do you agree with the principles as drafted? If not, how would you amend them?

Yes, we support the principles.

3 Do you agree with the three conclusions? If not, please explain what alternatives you would suggest?

Yes, we agree with the three conclusions.

4 Do you agree that the directors should disclose when the period they have considered is less than twelve months from the date of approval of the half-yearly and interim financial statements that give a true and fair view?

Yes, we agree.

5 Do you believe that it would be appropriate to replace the existing Guidance for directors with this document for periods ending on or after 31 December 2009? If not, what alternative application date would you suggest?

We believe the current timescales proposed are appropriate for listed companies. However for unlisted companies and subsidiaries of groups, more time may be needed to refine the guidance and allow the directors of such companies to consider and implement any necessary changes and ensure the appropriate level of evidence can be obtained (in particular the level within groups at which financial budgets are prepared).