

FINANCIAL REPORTING COUNCIL

FRC EXPOSURE DRAFT :

GOING CONCERN AND LIQUIDITY RISK : GUIDANCE FOR DIRECTORS

CBI RESPONSE

September 2009

I INTRODUCTION AND SUMMARY OF CBI POSITION

1. The Confederation of British Industry (CBI) is pleased to respond to the FRC's consultation.
2. The CBI strongly welcomed the interim updated Guidance issued last November at the height of the financial crisis. In the light of the economic downturn that has now ensued, the CBI welcomes the FRC's proposed new long term Guidance - in particular that it extends to directors of all UK companies, and is not limited to directors of listed companies.
3. We are substantially content with the proposed Guidance.
4. However the document could provide more guidance to assist the directors of subsidiary companies, whose situations can vary, for example, as to the extent that they are dependent or autonomous from the wider group. One or more examples covering subsidiaries in Appendix 1 would also assist.
5. Consideration might also be given to recommending inclusion of going concern disclosures in preliminary announcements and summary financial statements.
6. We support the proposed timetable of applying the new Guidance to listed and publicly traded companies from financial years ended on or after 31 December 2009, provided that there are no major changes to the Guidance, which would cause practical problems. In the latter event, an implementation date of financial periods ending on or after 31 December 2010 would then be more appropriate. However, more time might well be needed by unlisted companies and subsidiaries to familiarise themselves with the final Guidance.
7. We respond overleaf to the FRC's specific consultation questions.

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II RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

(i) SCOPE OF APPLICATION OF GUIDANCE

Q.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 ?

Yes, to both questions.

However the document could provide more guidance to assist the directors of subsidiary companies, whose situations can vary, for example, as to the extent to whether they are dependent or autonomous from the wider group. One or more examples covering subsidiaries in Appendix 1 would also assist.

Consideration might also be given to recommending inclusion of going concern disclosures in preliminary announcements and summary financial statements. In respect of preliminary announcements, the Guidance could include that set out by the FSA in the January 2009 Edition of LIST, for example.

In the past we have supported international harmonization. It is therefore for consideration whether the FRC should seek for the IASB to reflect the key features of the final FRC Guidance in IFRS.

However, the downside to this is that the FRC may effectively cede control of its Guidance to the IASB, and that might not be appropriate in that the FRC guidance is intended to apply to all UK companies, and not just listed or publicly traded companies, and that we still prefer the document to be guidance rather than prescription, albeit that listed companies are subject to the FSA Listing Rule.

(ii) INTRODUCTION OF PRINCIPLES

The Exposure Draft follows more closely the style and format of other guidance for directors issued by the FRC, rather than the style and format of the 1994 Guidance. In particular, the sections have been reorganised and now begin with a principle supported by application guidance.

Principle 1: Directors should make a formal and rigorous assessment of whether the company is a going concern when preparing financial statements intended to give a true and fair view.

Principle 2: The procedures carried out by the directors should be proportionate in nature and depth depending upon the degree to which going concern is an issue for the company and the size and complexity of the company and its operations.

Principle 3: Directors should consider all information about the future that they are aware of

when concluding whether the company is a going concern at the date of approval of the financial statements.

Directors should disclose if the period that they have reviewed is less than one year from the date of approval of annual, half yearly and interim financial statements that give a true and fair view.

Principle 4: Directors should make balanced, proportionate and understandable disclosures about going concern in order to give a true and fair view.

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

Yes.

Principle 2 could be regarded as a subset of Principle 1, so there may be a case for combining them.

In respect of Principle 3, the Guidance could also address how known matters arising after, say, 12 – 24 months of the approval of the financial statements should be handled.

(iii) CONCLUSIONS AS TO THE GOING CONCERN ASSESSMENT

The Exposure Draft proposes three conclusions. The FRC is not able to change the requirements of IFRS and so this proposal seeks to deliver better convergence of UK practice, IFRS and auditing standards by proposing that a qualified going concern conclusion should be expressed only where “material uncertainties leading to significant doubt” have been identified by the directors.

Conclusion 1 : No material uncertainties leading to significant doubt about going concern have been identified by the directors.

Conclusion 2 : Material uncertainties leading to significant doubt about going concern have been identified by the directors, but the going concern basis remains appropriate.

Conclusion 3 : The going concern basis is not appropriate.

Q.3 Do you agree with the three conclusions ?

If not, please explain what alternative you would suggest.

Yes.

(iv) HALF YEARLY AND INTERIM FINANCIAL STATEMENTS

The FRC believes that there is merit in adopting a consistent approach to the disclosure of the review period for both annual and interim financial statements that give a true and fair view. Paragraph 55 of the Exposure Draft, therefore, requires directors who apply this Guidance to disclose when their going concern review has not extended to a period of at least twelve months from the date of approval of half-yearly and interim financial statements that give a true and fair view.

Q.4 Do you agree that the directors should disclose when the period that they have considered is less than 12 months from the date of approval of half yearly and interim financial statements that give a true and fair view ?

Yes.

(v) IMPLEMENTATION DATE

Barring unforeseen circumstances the FRC hopes to be in a position to issue the revised Guidance for directors by mid-November 2009 and believes that it would be helpful to bring the revised Guidance into force as soon as practicable. Until the revised Guidance comes into force both the 1994 Guidance and the Update continue to be relevant.

**Q.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 ?**

Yes in respect of listed and publicly traded companies, provided that there are no major changes to the Guidance, which would cause practical problems. In the latter event, an implementation date of financial periods ending on or after 31 December 2010 would then be more appropriate.

More time might also be needed by unlisted companies and subsidiaries to familiarise themselves with the Guidance.