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Dear Mr Leonard

Exposure Draft *Going Concern and Liquidity Risk: Guidance for Directors of UK Companies, May 2009*

INTRODUCTION

1. Ernst & Young LLP welcomes the opportunity to comment on the Financial Reporting Council's ("FRC") Exposure Draft *Going Concern and Liquidity Risk: Guidance for Directors of UK companies* ("the ED").

OVERALL OBSERVATIONS

2. We support the approach taken by the FRC to amalgamate *Going Concern: Guidance for Directors of listed companies, 1994*, with *Going Concern and Financial Reporting: Update for Directors, 2008*. We also commend the FRC for extending its new guidance to all UK companies, including listed and non-listed entities.
3. We are pleased to note that many of the points made in our response to your consultation of November 2008 (*Proposals to Revise the Guidance for Directors of Listed Companies, September 2008* ("the September 2008 paper")) have been addressed in this ED.
4. We note in particular that the ED provides guidance on going concern assessments in half-yearly and interim financial statements. It also underlines the linkages between the disclosure requirements of the Companies Act 2006 (e.g., with respect to the Directors' Report and the Business Review) and the disclosure requirements under relevant accounting standards.
5. There are, however, definitions which might require more clarity. For example, the term "listed companies" is used throughout the ED without qualification. In the main it is intended to refer to companies listed on a regulated market in the UK (e.g., the Main Market of the London Stock Exchange). Whilst we recognise that it is impossible to cover



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every type of listing, it would be helpful in our view if the ED could qualify the term e.g., by stating "companies listed on the Official List" or "companies listed on a regulated market" etc.

6. In addition, we believe the ED should also address companies listed on the UK's Alternative Investment Market (AIM). In particular paragraph 3 of the ED states: 'The principles contained in this Guidance should be applied by directors when preparing annual and interim financial statements that are intended to give a true and fair view'.
7. This might be misinterpreted by AIM listed companies, with respect to half-yearly reports, as they are required in accordance with AIM Rule 18 to prepare a half-yearly report which 'must be presented and prepared in a form consistent with that which will be adopted in the AIM company's annual accounts, having regard to the accounting standards applicable to such annual accounts.' Therefore, strictly speaking, AIM listed companies are not required to prepare a half yearly report which gives a true and fair view, but we assume that it is the FRC's intention that the review period mentioned in paragraphs 55 and 56 (twelve months from the date of approval of the half-yearly and interim financial statements) applies to AIM listed companies.
8. We therefore ask the FRC to clarify its intention in the final version of the Guidance to avoid any such misinterpretation.

RESPONSES TO SPECIFIC QUESTIONS

Q1 Do you agree that the FRC should provide guidance on going concern relevant for directors or all companies? If so, do you believe that the ED achieves this in a reasonable way?

Yes. Guidance should be provided for all companies. In particular the current credit crisis has shown that smaller companies are probably more susceptible and will perhaps have less access to specialist knowledge and resource in making their going concern assessments. It is therefore all the more important that the Guidance covers all companies.

Q2 Do you agree with the Principles as drafted? If not how would you amend them?

Yes. We agree with the Principles as drafted.

Q3 Do you agree with three conclusions? If not, please explain what alternative you would suggest?

Yes. The three conclusions provide a much clearer outcome than the four options proposed in the September 2008 paper, and they are also aligned with the requirements of accounting and auditing standards.

Q4 Do you agree that the directors should disclose when the period they have considered is less than 12 months from the date of approval of the half yearly and interim financial statements that give a true and fair view?

Yes, as this aligns with the requirement for annual accounts. However, please refer to paragraphs 7 and 8 with respect to companies which are not necessarily required to prepare interim financial statements that give a true and fair view. Our assumption currently is that such a disclosure should be made nevertheless, but we recommend that the FRC clarify this point.

Additionally, whilst ISA (UK and Ireland) 570 requires the auditor to make a disclosure in the audit report, if the period considered by the directors in making their going concern assessment is less than one year from the date of approval of the financial statements, (and the directors have not disclosed that fact in the financial statements), ISRE (UK and Ireland) 2410 is silent on this matter. In the light of the guidance in the ED, we would presume that the FRC would prefer to see similar disclosure in interim review reports and accordingly it may wish to consult further on this issue with the APB.

Q5 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 date would you suggest?

Yes. We support the guidance being issued as soon as possible.

CONCLUSION

We are aware that concerns have been expressed that the Exposure Draft will not address the inconsistencies that exist in the current literature as regards the minimum period which directors should consider as part of their evaluation of going concern. We understand these concerns as clearly any such inconsistency is not desirable. Nevertheless we believe that the publication of the guidance in the Exposure Draft in final form will be helpful to many companies and we would encourage the FRC to proceed with that and separately seek to work with other relevant parties to eliminate the inconsistencies.

We are grateful to the FRC for publishing this ED and we hope you have found our comments helpful. If you would find it useful, colleagues in our firm are available to discuss further any of the points we have raised.

We wish you every success in finalising the Guidance and encourage you to publish all non-confidential responses, including this one, shortly after the closing date. May we also suggest that you proactively share the final Guidance with overseas regulators as we are aware that the guidance you issued in December 2008 had a favourable reaction and positive influence far beyond the UK.

We look forward to reading the results.

Yours sincerely



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