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Dear Mr Leonard

**Going Concern and Liquidity Risk: Guidance for Directors of UK Companies**

Thank you for giving the Institute of Directors (IoD) the opportunity to respond to the Going Concern and Liquidity Risk Exposure Draft, published by the Financial Reporting Council in May 2009. This paper presents our response. Issues surrounding financial reporting and disclosure are of considerable interest to the United Kingdom business community in general and to the IoD in particular. We are therefore pleased to participate in the consultation and present our response to the questions posed below.

*About the IoD*

Founded in 1903, and granted a Royal charter in 1906, the IoD is an independent, non-party political organisation of 50,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 92% of FTSE 100 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-up companies.

IoD response to consultation questions

*Question 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. We believe that the FRC Guidance should be relevant to the directors of all companies whose financial statements are required to show a true and fair view of their company's activities.

However, we would not wish the Guidance to acquire mandatory status for non-listed entities. The Guidance should ideally be publicised with smaller enterprises, and presented as a useful source of “best practice” information. But it should not add to the regulatory or disclosure burden that is faced by such companies.

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

We welcome the new principles-based structure of the Guidance. This is an improvement – in terms of clarity and ease of use – on the style of the original 1994 Guidance.

With respect to the discussion relating to principal 2, we believe that there is insufficient recognition of the difficulties that directors face in forecasting the future, particularly in a volatile economic environment (as at present). Furthermore, forecast outcomes may be highly sensitive to the assumptions utilised in the forecasting process.

As a result, the Guidance should stress throughout that the review process – although undertaken by directors in good faith – should be a pragmatic process that recognises the inherent difficulties of forward economic projections.

*Question 3: Do you agree with the three conclusions? If not, please explain what alternative you would suggest?*

Yes, we support the three proposed categories of going concern disclosure, and recognise the benefits of the greater consistency between the disclosures proposed by the Guidance and IFRS.

*Question 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 half-yearly and interim financial statements that give a true and fair view?*

Yes. We believe that 12 months is a reasonable period for consideration of going concern status, and that any other timescales should be clearly disclosed.

*Question 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, we agree with this timetable.

Thank you once again for inviting the Institute of Directors to participate in this consultation. We hope you find our comments useful.

Yours sincerely,

Dr. Roger Barker  
Head of Corporate Governance