

## Risk management, internal control and going concern

### Submission from The Association of Investment Companies (AIC)

The AIC welcomes the opportunity to respond to the Financial Reporting Council's consultation on its draft guidance on risk management, internal control and the going concern basis of accounting.

The AIC is the trade body representing some 340 investment companies, managing assets of around £98billion. Our members are closed-ended investment companies, the vast majority of which are listed on the London Stock Exchange. Their business is to invest in a diversified portfolio of shares and securities, property and other assets to provide returns for their shareholders.

The AIC supports high standards of corporate governance. Most of our members report on a comply-or-explain basis against the AIC's Code of Corporate Governance which the FRC has endorsed as a suitable alternative for investment companies to the UK Corporate Governance Code.

We **agree** with the FRC's decision to integrate its current guidance on going concern with its guidance on risk management and internal control. This is a practical approach which reduces duplication and confusion. In particular, the proposals to clarify the use of the term 'going concern' are welcome. We have no specific comments on the draft changes other than the two points noted below.

#### Limited life companies and going concern

The accounting definition of going concern (FRS 102, para 3.8) states that *"An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so"*.

An investment company may be considering liquidation for reasons other than doubts about its ability to continue as a going concern. Indeed it may be financially very sound but be considering liquidation because it was set up with a fixed or limited life which is coming to its end or it is in shareholders' best interests to do so for some other reason. Many investment companies have introduced continuation votes where shareholders have the opportunity, often periodically, to vote in favour or against the company continuing in existence. In any event it will normally be the case that shareholders will have to vote in favour of a liquidation before this event would transpire.

As set out in the AIC'S Statement of Recommended Practice, even if an investment company is approaching a wind-up or continuation vote, it will usually be more appropriate for the financial statements to be prepared on a going concern basis where shareholders have yet to vote on the issue. However, where shareholders have already approved the wind-up or voted against continuation, or where the board has concluded that there is no realistic alternative, it is expected that adoption of a non-going concern basis will be appropriate.

We **recommend** that the situation of fixed/limited life companies and those with continuation votes be discussed in Appendix C of the FRC's guidance. The AIC would be keen to discuss the detail of this Annex if the FRC decides to adopt this recommendation.

## FRS 102 – three reporting scenarios

Page 22 of the draft guidance identifies three possible reporting scenarios from the board's determination of whether to adopt the going concern basis of accounting and whether there are material uncertainties.

In comparison, FRS 102 combines these into only two possible reporting scenarios (para 3.8 and 3.9). Our view is that the three scenario version in the draft guidance is clearer. We **recommend** that FRS 102 is updated to reflect the three scenarios identified in the draft guidance next time a suitable opportunity arises.

**January 2014**

To discuss the issues raised in this paper please contact:

**Alison Andrews**

Project Manager

E-mail: [alison.andrews@theaic.co.uk](mailto:alison.andrews@theaic.co.uk)

Tel: 020 7282 5613

**Guy Rainbird**

Public Affairs Directors

E-mail: [guy.rainbird@theaic.co.uk](mailto:guy.rainbird@theaic.co.uk)

Tel: 020 7282 5553