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Via email: riskreview@frc.org.uk

Dear Catherine

Risk Management, Internal Control and the Going Concern Basis of Accounting - Comments on the FRC's Consultation on Draft Guidance to the Directors of Companies applying the UK Corporate Governance Code and associated changes to the Code

BT Group plc ("BT") is one of the world's leading communications service companies, serving the needs of customers in the UK and in more than 170 countries worldwide. The shares of BT are listed on the London and New York Stock Exchanges and BT is a FTSE 100 company.

We welcome the opportunity to comment on the FRC's draft guidance on Risk Management, Internal Control and the Going Concern Basis of Accounting, published in November 2013.

Overall comments

We support the FRC's approach to the structure of this guidance, in integrating elements that are currently separate. We feel that the FRC has acknowledged many of the responses and concerns of companies and has tried to address these in the updated guidance. In particular we welcome the stated principle within section 3 of the guidance that the definitions of 'going concern' and 'solvency and liquidity risks' have been appropriately segregated. However, please see our comments on the proposed revisions to the Code below as we are not convinced that the spirit of the guidance is reflected in these revisions.

We also have some remaining concerns over details of the proposals and have set these out below.

We note that specific guidance for banks and smaller companies will be provided separately. It is understandable to provide separate guidance for companies which are not subject to the provisions of the Code. However, different guidance for banks may result in a two tier system in relation to governance requirements expected by the Code.

Key points

1 Significant failings or weaknesses

The guidance indicates that the Board should explain 'what actions have been or are being taken to remedy any significant failings or weaknesses identified from [their] review [of the effectiveness of the risk management and internal control systems]'

This aspect of the guidance is consistent with the overall 'direction of travel' for corporate reporting, in being more transparent about the governance activities with the company. Based on the proposals, Boards will need to define and determine what are 'significant failings or weaknesses'. They will need to take account of qualitative as well as quantitative factors in order to determine what level of materiality and likelihood should be applied in making their assessment as to what requires disclosure. Although it is probably best to retain this guidance at a 'principles' level, it is important to be aware that it is likely that Boards may apply different criteria. This could result in inconsistencies between the definitions used for reporting by different companies, at least in the initial reporting cycles before practice emerges.

Further, the UK Corporate Governance Code published in September 2012 includes (at C.3.8) a requirement for the audit committee to 'report on the significant issues... considered in relation to the financial statements, and how these issues were addressed.' This information would likely form part of the proposed disclosure by the Board of what action has been taken to remedy 'significant failings or weaknesses' identified by the Board's annual review, potentially resulting in repetition of the same information. We suggest that the guidance indicates that cross referencing may be helpful, to address any potential duplication.

2 'High level of confidence' and 'foreseeable future' criteria

The comments in Section 3 of the consultation and Appendix B of the guidance in relation to the above are potentially confusing. In Section 3 of the consultation, we agree with the stated principle that the reporting of solvency and liquidity risks should be separated from a positive going concern assertion. However, the two matters are still linked in relation to the Board forming its assessment of the going concern of the organisation (covered in Appendix B on page 18, as well as on page 7 of Section 3 of the consultation).

We agree that a 'high level of confidence' is appropriate criteria for the Board to use in making its assessment of going concern ie with a timeframe broadly accepted as being a period of 12 months from the approval of the financial statements. However, the proposed guidance implies that in forming this assessment, this 'high level of confidence' should also reflect solvency and liquidity risk. Given that longer term considerations, beyond the period of assessment of the going concern statement, will inherently bring greater uncertainty this will be difficult for Boards to apply.

3 Determining whether there are material uncertainties

We note that the guidance in Appendix C suggests that organisations should not consider very high impact but low likelihood risks as material uncertainties in their going concern deliberations. Likelihood can be a subjective assessment, and this level of subjectivity could limit the value of these proposals and result in reporting which presents a potentially misleading impression to investors.

Organisations that underestimate the likelihood of high impact risks are often those that are least prepared for them, and where the most catastrophic impacts may result. However, in following this guidance, those organisations holding a mistakenly optimistic view would be the ones most likely to exclude such risks from their going concern deliberations and reporting.

By contrast, organisations with a more accurate understanding of the likelihood of such risks, and which are better prepared to withstand them, would be more likely to recognise them and so report them accordingly.

4 Stress testing

The importance of stress testing is covered in Appendix B, together with a brief explanation of what this would entail. The guidance implies that stress testing should be undertaken by all entities. Although this will be the norm for more sophisticated or larger organisations, we think this implication goes beyond what would be expected to be in place for many.

5 Auditing standards

There is an expectation that the auditor should report explicitly if they have anything material to add to the directors' comments in the annual report and accounts in relation to solvency and liquidity risks and going concern. We think it important to note whether the extent of the work performed by the auditor is expected to be expanded significantly to respond to this proposal, or whether the current audit approach and scope for this area would be expected to be sufficient.

6 Proposed updates to the Code

Importantly, we do not think that the proposed updates reflect the comments made in Section 3 of the consultation.

We do not agree with the proposed deletion of C.1.3, as this section relates to the Board's responsibility to report in its financial statements that the business is a going concern. This is quite different from the proposed new requirement (C.2.1) that the Board report on matters which might affect its ability to continue to adopt the going concern basis. C.1.3 is concerned with the Board disclosing the basis on which the company's financial statements are prepared having undertaken an assessment; whereas C.2.1 is concerned with the disclosure of the principal risks that the company faces.

Furthermore, C.1.3 is consistent with requirements in the Listing Rules (LR9.8.6(3)) to make such a statement, and thus it would make little sense to remove the requirement from the UK Code without at the same time removing it from the Listing Rules. In general, we would urge the FRC to review this guidance alongside other principles, including developments within the IASB or US regulators, to avoid the risk of inconsistent messages for organisations.

New C.2.1: In our view, the proposed wording of the new provision confuses the going concern statement with the reporting of solvency and liquidity risks; Section 3 of the guidance indicated that these two concepts would not be connected in this way. We would propose that the final sentence of C.2.1 be deleted; it does not add anything when the Code provision already requires the Board to consider, specifically, risks threatening the company's solvency or liquidity. Also we are concerned at the potential for uncertainty and creation of subsets of principal risks that may result from the inclusion of the term 'material uncertainty'.

Also, consideration should be given to the requirements for the half yearly interim report, as the revised wording relates only to the annual report.

New C.2.2: The first sentence of this new provision includes the word 'monitor', which may place a potentially onerous (and in our view inappropriate) burden on the Board. Likewise, the use of 'monitoring' in the final sentence will result in the Board being required to monitor all material controls, which significantly increases the scope and requirements of a Board's responsibility compared to the previous 'review'. We appreciate that the intention may be to enhance the Board's scrutiny, but to expect annual 'monitoring and review... of all material controls' is an extensive additional, and unrealistic, burden on the Board.

Rather, the Board should be responsible for ensuring that a system to monitor the company's risk management and control systems is in place, with any actual monitoring being carried out by the company's management. The results of this monitoring should be reported to the Board and any mitigating actions agreed by the Board. This approach would also seem to be supported by the Draft Guidance (see Section 2, paras 21 and 22 and Section 6 in particular).

7 Appendices to the guidance

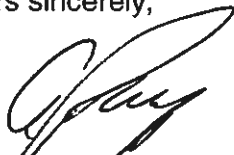
Appendix B - As a drafting point, within the 'Considering what information is available about the future' section of Appendix B, we suggest that the paragraph beginning with 'Given the accounting requirements...' and ending with '...to have a going concern material uncertainty to disclose' be moved such that it is the final paragraph, as it will then follow the fuller discussion about the appropriate period of an assessment of solvency and liquidity risk.

Appendix C - Severe distress. The opening paragraph describes the two examples as 'outside the normal course of business'. We would not expect that discontinuing or materially curtailing the company's operations (or at least a part of them) or raising finance would be outside the normal course of business for the majority of companies. We would propose, therefore, not including the examples on the basis that the Board is best placed and ought reasonably to know what constitutes normal and abnormal business for the company.

Appendix E - We are concerned that this appendix, while of use to smaller entities, may be too low level or form too much of a basis for a 'tick box' exercise. We would propose that the FRC includes references to further guidance on what constitutes an effective Board, such as the FRC's 'Guidance on Board Effectiveness', which could be consulted by users where further detail is required.

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

Yours sincerely,



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BT Group PLC