



Catherine Woods
Financial Reporting Council
5th Floor,
Aldwych House,
71-91 Aldwych,
London WC2B 4HN

20 January 2014

Dear Catherine,

AFM response on consultation on Risk Management, Internal Control and the Going Concern Basis of Accounting

1. I am writing in response to this discussion paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Comment briefly and in support of the proposals in the consultation.
2. The Association of Financial Mutuals (AFM) represents 53 member companies, most of whom are owned by their customers. Between them, AFM members manage the savings, protection and healthcare needs of over 20 million people, and have total funds under management of £120 billion. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.
3. The AFM maintains a version of the UK Corporate Governance Code annotated for mutual insurers. We recognise that the listed companies for whom the Code is primarily aimed are many times bigger than most of our members, and also that the focus on shareholder-owned businesses does not entirely adapt to other business models. In 2012 we undertook a review of our Annotated Corporate Governance Code, and as a result the AFM Board renewed its commitment to keep our Code in step with FRC's, and that the FRC code expresses generally acknowledged good practice.
4. In general terms, we are supportive of the proposals in the consultation, in relation to changes to the UK Corporate Governance Code in Section 4. We recognise that these make changes to going concern reporting, and that this may be quite onerous for many listed companies. However as insurers, the accounting regime for most of our members already implies robust business planning and significant risk management work, and requires auditors to undertake a specific review of going concern. The exception would be non-directive friendly societies: those with very small assets and income, who are subject to a more proportionate accounting regime. Excepting this group, we do not believe the proposals will add cost to the normal audit and accounting approach.

5. We are also content to the other changes proposed to the Code, as set out on pages 11 and 12 of the consultation.
6. We also wish to add that we consider the guidance provided in the Appendix provides some helpful amplification of good practice, and we have highlighted to our members that this represent a useful and practical overview of the issues that they might review regularly.
7. On a broader point, we repeat the comments we made in response to FRC's consultation on Director's remuneration: "For 'voluntary' adopters of the Code, we are concerned that FRC is amending the Code to reinforce changes to primary legislation, or is being expected to do so. This duplicates the requirements, making version control a risk in future. Of greater concern to us though is that FRC is exporting requirements beyond their intended audience, by implying that voluntary subscribers should be expected to comply in full. To illustrate, most members of AFM are not subject to Companies Act legislation, and are very clearly outside the scope of changes to the legislation provided by BIS. Hence by adopting the same requirements in the Code, FRC is presenting a new and unwarranted hurdle, the result of which will be higher costs to firms that comply, higher levels of exception reporting to firms that cannot comply, less relevance in the Code to the owners of mutuals, and greater risk that AFM and its members will be unable to support future Code developments which gold-plate or contradict our primary legislation. This is clearly an unwelcome distraction for our members, and risks undermining the principles of democratic primacy."
8. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,



Chief Executive
Association of Financial Mutuals