



Our ref: ICAEW Rep 65/13

Your ref:

Marek Grabowski
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Dear Marek

Implementing the Recommendations of the Sharman Panel

ICAEW is pleased to respond to your request for comments on *Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)*.

ICAEW has grave concerns about how these proposals seek to implement the recommendations of the Sharman Panel and we feel that the proposed implementation will be unnecessarily damaging to business confidence and economic growth in the UK. Additionally, we feel that there are some issues in respect of timetable that are causing uncertainty to business and which require immediate feedback from the FRC on how they are to be addressed. As a result, we will be raising our concerns directly with BIS ministers.

We are supportive of the recommendations of the Sharman Panel and are keen to work with you to ensure that they reflected in updated guidance in a cost-effective way.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

IMPLEMENTING THE RECOMMENDATIONS OF THE SHARMAN PANEL

Memorandum of comment submitted in April 2013 by ICAEW, in response to the Financial Reporting Council's consultation paper *Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)* published in January 2013

Contents	Paragraph
Introduction	1
Who we are	2 - 4
Major points	5 - 27
Responses to specific questions	288 - 68

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)* published by the Financial Reporting Council on 30 January 2013, a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. In preparing our response, we have sought input from the full breadth of our membership, including company directors, practitioners, institutional investors, members of audit committees and managers at a wide range of companies from SMEs to listed companies.

MAJOR POINTS

5. We support the Sharman Panel's recommendations and remain committed to working alongside the FRC in ensuring that the Panel's proposals are reflected in updated guidance in a cost-effective way. We think the FRC should reflect on the issues raised in this letter and by others as part of a rigorous regulatory impact assessment to satisfy itself that the final Guidance is in the public interest. The major points below should be read in this context.

These proposals will hit business growth

6. While we are supportive of the original proposals in the Sharman Panel's review, we have grave concerns that the way in which the FRC is seeking to implement them does not keep to the spirit of the Sharman Review and has developed in a direction that could be economically damaging to UK listed companies, represent a particular burden on SMEs and will hurt growth. UK listed companies raise money in international capital markets, and as the Guidance leads to increased reporting of material going concern uncertainties this will make it very difficult for UK companies to raise finance in those markets, where potential investors will not understand why such uncertainties are being reported, leading them to be more cautious in their investment decisions. This is a fundamental flaw and will put UK companies at a significant disadvantage. We recommend that the FRC redraft the Guidance, using the 2009 guidance as a starting point and building the Sharman Panel recommendations into what has proved to be very successful and helpful guidance for directors.
7. We are in favour of enhanced narrative risk reporting and share the FRC's desire for a better, more qualitative discussion of financing, and of liquidity and solvency risks that could, over a long period, cause the company to fail and how the directors plan to mitigate them. It is instructive here to distinguish between short-term risks to liquidity and longer-term risks to the ongoing viability of the company's business model. These latter risks and management's plans to address them should be explained clearly to investors, but the assessment of whether management's plans mitigate these risks should be left to investors. It is not something that should be linked to the going concern statement. We urge the FRC to explore alternative ways of improving narrative reporting that do not require profound changes to going concern. As drafted, the Guidance will widen, not reduce, the expectation gap in respect of going concern.

8. As growth continues to flat-line, there could not be a worse time for businesses that are going concerns to be forced, unjustifiably, to disclose uncertainties as to whether they are a going concern. Lenders have never been willing to give a high level of assurance that they will continue to provide finance, so directors will be forced to disclose this uncertainty in accordance with the Guidance. Such disclosures will undermine lenders' confidence to continue to provide finance. As a result, we believe these proposals will themselves contribute to corporate failure in companies which otherwise could be viable.
9. Businesses may respond by becoming more risk averse, which would reduce investment. It is also likely that businesses will seek to mitigate risks to their short to medium term liquidity by holding more cash, thereby further limiting growth.

The FRC should not unilaterally redefine international concepts

10. We understand the FRC's desire to influence the rest of the world to follow its lead. However, we are not convinced that the approach in the Guidance will be persuasive to an international audience.
11. The Guidance says that a material uncertainty exists when directors are unable to obtain a high level of confidence over the 'foreseeable future', as now defined as, potentially, the economic cycle. This will result in the vast majority of businesses reporting material uncertainties and, therefore, receiving 'emphasis of matter' paragraphs in their audit reports. This will be hugely destabilising, and will cause confusion to users of accounts and other stakeholders such as employees, credit insurers, business partners and suppliers. In particular, investors have indicated to us that it will undermine the purpose of both going concern reporting and the audit report. They need better disclosures that will help them to focus their activities, not simply more companies reporting material uncertainties.
12. At its March 2013 meeting, the IASB Board considered a proposed narrow-focus amendment to IAS 1 on the disclosure of material uncertainties. The proposed amendment retains the guidance relating to going concern as a basis for the preparation of the financial statements substantially unchanged; provides guidance on how to identify material uncertainties; and contains requirements about what to disclose about material uncertainties. The IASB Board is to consider this issue further at a future meeting.
13. We believe that the Guidance redefines the meaning of 'material uncertainty' well beyond either what is currently best practice under IFRS or what the IASB Board is due to consider. The Guidance effectively transforms 'material uncertainty' into a way of providing narrative reporting over the going concern conclusion. We believe that this is inappropriate and that the FRC should allow the IASB to complete its work in this area, rather than unilaterally seeking to redefine international understanding.
14. We believe the Guidance will cause very real difficulties for companies with a US or other multiple listing. As far as possible, these companies must file the same document in all jurisdictions. The Guidance's changes to the definition of material uncertainty will cause significant confusion and will make it very difficult for UK companies with a foreign listing to list additionally in the UK, or vice versa as a result of the emphasis of matter paragraph in the UK audit report.

The timetable for implementation is unrealistic

15. Going concern is too important an issue to experiment with. The Guidance must be right first time, before implementation. We believe the proposed Guidance still needs significant conceptual and drafting changes before it can be implemented. Even if the Guidance did not require such significant changes, we still believe the current timetable would be unrealistic. However, given the concerns we have about the Guidance, as outlined above, we believe the proposed timetable is almost impossible to achieve. It is important to recognise that directors

will be required to make changes in how they report going concern uncertainties. For businesses with a 30 September year-end, the first period is already halfway completed, meaning that directors have a very limited time to make the changes. There is also significant uncertainty about whether the Guidance will impact the interim financial statements of businesses with a 31 December year-end. This uncertainty needs to be dispelled as a matter of urgency.

16. In particular, we do not believe that companies will have sufficient time merely because the Final Report of the Sharman Inquiry has been available since June 2012. It was not possible for companies to understand and plan for implementation based only on the Final Report. As we stated in our response (ICAEW REP 3/12) to the Sharman Panel's request for comments on its preliminary report (emphasis added):

"If the Panel does resolve to make changes to the UK regime it is imperative that constituents have the opportunity to review and comment upon the revised requirements before they are enacted. Consequently we feel that the next stage in the process, before any final decisions are taken, should be the issuance for consultation of a detailed exposure draft including full illustrative material. **It is only at this stage, once all of the details are set out together with the scope and applicability of the proposals, that the full implications can be properly assessed.** In developing the 2009 FRC guidance there were a number of iterations in the testing and refining of the final text, [and] we would anticipate a similar process in this instance."

17. We understand that the FRC has deliberately given no examples of how the Guidance might be applied, in order to avoid boilerplate compliance. While we are sympathetic to the objective to avoid boilerplate reporting, we do not believe that the illustrative guidance provided in the 2009 guidance led to boilerplate reporting. If anything, it catalysed good disclosure, with companies using the examples as the starting point for drafting the required disclosures in their own words. We feel that uncertainty over how to apply the Guidance and how compliance with it is to be regulated is likely to cause serious concern to directors, particularly in the light of its complexity. We reiterate our suggestion that a further stage of consultation, including full illustrative material, is necessary. Additionally, we believe that the lack of well thought through illustrative examples may have served to mask areas of the Guidance which are either unclear or unworkable.
18. We also note that the Sharman Panel's recommendations called for the going concern assessment to be integrated with the directors' risk management processes, but that the FRC's guidance on risk management and internal control is not due to be issued until early summer, and even then only in draft form. This suggests the planned timetable should be revised to allow changes to the going concern and risk management guidance to be considered together.

Directors can't be confident about the future beyond the short to medium term

19. In requiring directors to obtain a high level of confidence over the 'foreseeable future', we believe that the Guidance sets far too high a bar. Given that the term 'high level of confidence' is not defined within the Guidance, it could be interpreted as 'virtually certain', which considered over the foreseeable future – as now defined as, potentially, the economic cycle – would effectively be asking company directors to certify that their business will survive almost indefinitely. This is unrealistic.
20. Directors are able to take a clear view on their company's short term liquidity and solvency but the future is inherently uncertain. The longer the assessment period, the less confident directors can be. In particular, lenders will be unable to provide assurance over future funding beyond the short term; there are risks from emerging markets; and concerns about the state of the economy.

21. Since the Guidance asks all companies to look out so far into the future that they can have no confidence as to what will or will not happen, then no company can reach the high confidence of survival that is set as the test. Therefore no company will be a going concern; an entirely counter-intuitive outcome. Extending the period for assessing a company's going concern status beyond the short term won't work for this reason. We believe this issue is likely to lead to the development of boilerplate disclosures that describe a company's inability to conclude without qualification that it is a going concern in accordance with the Guidance, and with a consequential impact in the audit report. This is the very opposite of the FRC's stated intention to improve disclosure.

SMEs shouldn't be required to make detailed narrative disclosures

22. The Sharman Panel's recommendations, which were designed primarily to address concerns about listed companies, have been extended by the Guidance to apply to SMEs in a way that flies in the face of the 'think small first' principle that has been the touchstone of Government policy making in recent years and which can be seen as exhibiting the unwelcome features of 'gold plating' and 'scope creep'. The analysis of the evidence in the Sharman Panel's final report did not reveal widespread support for extending the Guidance to all companies, even with proportionately fewer disclosures for smaller companies.
23. The way in which the Guidance bundles risk reporting with the going concern assessment by way of material uncertainties subjects SMEs to a burden not imposed on their competitors in other countries. This will impede their ability to contribute to economic recovery. As noted in paragraph 13, there should be a single, internationally accepted definition of material uncertainty that should apply to all sizes of company. However, the additional narrative reporting of risk should only be required for larger companies.
24. We are particularly surprised by the FRC's approach, given its position, reaffirmed recently in its new UK GAAP, that unlisted companies should not be required to make liquidity risk disclosures. The Guidance risks introducing a lot of disclosures which were deliberately excluded in an attempt to reduce the reporting burdens on smaller companies.
25. Proposals to revise the European Accounting Directives are expected to amend the reporting requirements on small and micro entities on a 'maximum harmonisation' basis that would preclude any additional requirements being imposed at a member state level. We think it is inappropriate to introduce new burdens now, while the reporting regime for small and micro entities is known to be changing and we advise the FRC to delay until after the government has determined how it intends to implement the revised Accounting Directives.
26. The 2009 guidance was developed from the 'bottom up', with the needs of SMEs considered first and the additional requirements of larger and listed companies specified incrementally. By contrast, the Guidance effectively requires SMEs to follow the requirements for larger and listed companies in full. We recommend that the FRC completely redraft the Guidance, using the 2009 guidance as a starting point and building the Sharman Panel recommendations into them. This should be done in a way that begins with the requirements for SMEs and layers on additional requirements for larger entities.
27. While our preference is for the FRC to completely redraft the Guidance, we have nevertheless commented on the detailed questions in the consultation, in paragraphs 28 to 68 below.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree that the Guidance appropriately provides the clarification recommended by the Panel as to the purposes of the going concern assessment and reporting and is appropriate? If not, why not, and what changes should be made to the Guidance?

28. No, we do not believe that the Guidance provides the clarification recommended by the Sharman Panel.
29. Our main objection is that the Guidance introduces many new concepts and seeks to redefine internationally understood terms to such an extent that, in the absence of illustrative examples, it is impossible to see what the outcome will be. We suspect that directors will find the Guidance difficult to implement and users will find the disclosures difficult to understand.
30. As drafted, the Guidance states that there will always be material uncertainties to be disclosed whenever the board 'is unable to obtain a high level of confidence about the entity's solvency and liquidity for the foreseeable future'. We find it hard to envisage a situation where any board will be able to obtain such confidence, and this will lead to virtually every listed company being unable to say, without qualification, that it is a going concern and to virtually every audit opinion – whether the company is listed or an SME – including an emphasis of matter describing material uncertainties. We believe this additional disclosure will be confusing to investors and other users of accounts, rather than providing additional clarification.
31. A lot of this confusion could have been avoided had the FRC followed the structure of the 2009 guidance. The Sharman Panel's recommendations address reporting from the going concern regime in place prior to 2009 and we note that the FRC has not assessed the effectiveness of the 2009 guidance. We recommend that the FRC redraft the Guidance, using the 2009 guidance as a starting point and building the Sharman Panel recommendations into what has proved to be very successful and helpful guidance for directors.

Q2: Do you agree with the description in the Guidance of when a Company should be judged to be a going concern? Do you agree in particular that this should take full account of all actions (whether within or outside the normal course of business) that the board would consider taking and that would be available to it; and that, if the underlying risks were to crystallise, there should be a high level of confidence that these actions would be effective in addressing them? Is the term 'a high level of confidence' sufficiently understandable? If not, why not, and how should the description or term be modified?

32. A company's going concern status is something that exists at a point in time. The assessment of this status should require directors to consider events in the short term, but we believe that it is inappropriate to extend the period beyond the short term. The future is inherently uncertain, and the longer the assessment period, the less confident directors can be.
33. We believe that the term 'a high level of confidence' will cause considerable confusion, particularly in the context of the requirement for directors to consider 'the foreseeable future'. Lenders are already unwilling to provide written assurance that they will continue to provide funding, and without that assurance directors will be unable to obtain a high level of confidence about funding for the foreseeable future.
34. We believe that the FRC's guidance in respect of the 'foreseeable future' is also part of the problem. We cannot envisage a situation in which the board of directors will ever be able to obtain a high level of confidence about possible occurrences over such a long period or that any actions it might take in response would be effective in addressing them. However, we think the Guidance is incorrect – if not flying in the face of common sense – to consider a company to be not a going concern today because of a risk that may crystallise in the long term. For the avoidance of doubt, we agree that such a risk should be disclosed, but not that it should lead to the company's being unable to say, without qualification, that it is a going concern.

Q3: Do you agree with the approach the Guidance takes to the implications and nature of actions within or outside the normal course of business? Do you consider that the Guidance explains their nature sufficiently clearly? If not, why not and what changes should be made to the Guidance?

35. While we find the distinction between within and outside the normal course of business mostly to be clear, we find the Guidance confusing in how it intends these concepts to be used. It appears that, regardless of whether an action is considered to be within or outside the normal course of business, all that matters is whether directors can obtain a high level of confidence that actions taken to respond to risks that crystallise will be effective.
36. If it is intended that actions within and outside the normal course of business are to be treated differently, the Guidance needs to make this much clearer. Otherwise the distinction should be dropped, in the interests of clarity.

Q4: Do you agree with the approach taken to interpreting the foreseeable future and is this sufficiently clear in the Guidance? If not, why not and how should the Guidance be changed?

37. No, we do not agree with the approach taken to interpreting the foreseeable future. See our answer to Q2 above.

Q5: Do you agree that the use of the term 'going concern' in the phrase 'going concern basis of accounting' is sufficiently clearly distinguished in the Guidance from its use in the Code requirement for a statement that the company 'is a going concern' and from its use in the accounting and auditing standards in the context of material uncertainties about the company's 'ability to continue as a going concern'? Is it clear from the Guidance that the statement the directors are required to make under the Code (that the Company is a going concern) should reflect the board's judgement and is not intended to be absolute? If not, why not and what changes should be made to the Guidance or the Code requirement?

38. No, we do not find the distinctions in the Guidance to be clear. There is public confusion about how the various terms are used, and the Guidance does not serve to clarify their meanings. In fact, it confuses the issue further.
39. Paragraph 2.27 provides an illustration of this confusion: 'The corresponding threshold for departing from the going concern basis of accounting is a very high hurdle and may not be reached even when the company is not judged to be a going concern.' The distinctions that the FRC intends to draw will, we believe, be widely misunderstood and will lead not to the common understanding that is sought but to the opposite. Indeed, the use of the same term with different meaning is never going to be understood, however much one tries to explain it. The better approach would be to adopt different terminology.

Q6: Do you agree that the judgemental approach in the Guidance to determining when there are material uncertainties to be disclosed is the appropriate interpretation of the relevant accounting standards? Do you agree that the factors and circumstances highlighted respectively in paragraphs 2.30 and 2.31 are appropriate? If not, why not and what changes should be made to the Guidance?

40. No, we do not agree with the Guidance's definition of when to disclose material uncertainties. The definitions of material uncertainty given in paragraphs 2.29 and 2.30 are different, and both are fundamentally different from current practice, not mere evolutionary improvement, and inconsistent with the current international consensus. We appreciate that the international consensus may move and that the FRC wishes the UK to lead such a move, but we strongly believe that the FRC would be leading to what is fundamentally the wrong place.
41. We disagree with the factors and circumstances in paragraphs 2.30 and 2.31. Paragraph 2.31 attempts to provide a threshold for recognising a material uncertainty but does so using inappropriate criteria, an improper timescale and the wrong qualitative probabilities. These

criteria are then overwritten by the statement, in 2.32, that there will always be material uncertainties to be disclosed whenever the board 'is unable to obtain a high level of confidence about the entity's solvency and liquidity for the foreseeable future'. We find it hard to envisage a situation where any board will be able to obtain such confidence, and this will lead to virtually every audit opinion including an emphasis of matter describing material uncertainties.

Q7: Do you agree that the interpretations adopted in the Guidance in implementing Recommendation 2(b) are consistent with FRS 18 and ISA (UK and Ireland) 570? If not, why not and what changes should be made to the Guidance or those standards?

42. Recommendation 2(a) recommends that the FRC 'should seek to engage with the IASB and the IAASB, ideally to agree a common international understanding of the purposes of the going concern assessment and financial statement disclosures about going concern, and of the related thresholds and descriptions of a going concern, in the international accounting standards.'
43. Recommendation 2(b) recommends that 'the FRC should seek to clarify the accounting and stewardship purposes of the going concern assessment and disclosure process and the related thresholds for such disclosures and the descriptions of a going concern in the Code... and in FRS 18 and ISA (UK & Ireland) 570, **if possible in line with such international consensus**' (emphasis added).
44. At its March 2013 meeting, the IASB Board considered a proposed narrow-focus amendment to IAS 1 on the disclosure of material uncertainties. The proposed amendment retains the guidance relating to going concern as a basis for the preparation of the financial statements substantially unchanged; provides guidance on how to identify material uncertainties; and contains requirements about what to disclose about material uncertainties. The IASB Board is to consider this issue further at a future meeting.
45. The proposed Guidance redefines the meaning of 'material uncertainty' well beyond either what is currently best practice under IFRS or what the IASB Board is due to consider. The proposed Guidance effectively transforms 'material uncertainty' into a way of providing narrative reporting over the going concern conclusion. We believe that this is inappropriate and that the FRC should allow the IASB to complete its work in this area, rather than unilaterally seeking to redefine international understanding.
46. We agree with the Sharman Panel that any action by the FRC should only be taken after trying to establish an international consensus among standard setters, regulators and all of their stakeholders.

Q8: Do you agree that Section 2 of the Guidance appropriately implements Recommendation 3? Do you agree with the approach to stress tests and the application of prudence in conducting them? Do you agree with the approach to identifying significant solvency and liquidity risks? Do you agree with the description of solvency and liquidity risks? If not, why not and what changes should be made to the Guidance?

47. No, we do not agree that this section appropriately implements Recommendation 3. We think these considerations would be useful in the context of risk disclosures but are not appropriate for the assessment of going concern. In addition, more practical help on how to implement these parts of section 2 is needed.
48. For larger entities, stress tests may be appropriate. However, more guidance is needed as well as a flexible approach to enforcement. We believe that SMEs will find the reference to 'stress tests' in paragraph 2.37 confusing and suggest that guidance for SMEs should be redrafted completely to make it clear what the requirements for smaller business are intended to be.
49. We believe more care is needed to ensure that the definition of solvency in the Guidance does not conflict with existing insolvency law.

Q9: Do you agree that the approach taken in Section 4 of the Guidance in implementing the disclosures in Recommendation 4 is appropriate? Is the term 'robustness of the going concern assessment process and its outcome' sufficiently clear? Do you agree that the approach the board should adopt in obtaining assurance about these matters is appropriately reflected in Section 3 of the Guidance? Do you agree that the board should set out how it has interpreted the foreseeable future for the purposes of its assessment? If not, why not and what changes should be made to the Guidance?

- 50.** No, we do not agree that the approach taken in this section in implementing the disclosures in Recommendation 4 is appropriate. The Guidance should not impose any additional requirements beyond the existing statutory standard of care within s174 of the Companies Act 2006. The term 'robustness' is not helpful. We suggest that Section 3 of the Guidance should reflect that, however much assurance they receive on going concern, the directors remain ultimately responsible for their assessment.
- 51.** The only parts of the Guidance which refer specifically to SMEs are in Section 2. We suggest that the Guidance should be rewritten to explain how each section should be applied by SMEs.

Q10: Do you agree that the proposed amendments to the auditing standards appropriately implement the enhanced role of the auditor envisaged in Recommendations 4 and 5? If not, why not and what changes should be made to the auditing standards?

- 52.** We believe that the FRC should not be acting to amend UK auditing standards in a way that introduces additional differences between UK auditing standards and International Standards on Auditing. We interpret the Sharman Panel recommendations as encouraging the FRC to seek international consensus among standard setters, regulators and all of their stakeholders before making unilateral changes to UK auditing standards. It is not clear that the FRC has allowed sufficient time to establish this consensus. Indeed, we have concerns about the direction in which the FRC may, by example, be trying to force such a consensus.
- 53.** Paragraph 17-2 of the proposed revisions to ISA (UK and Ireland) 570 requires the auditor to determine whether he has anything to add in relation to the directors' disclosures. In the absence of suitable criteria against which to evaluate these disclosures, this requirement seems inappropriately onerous. Even setting aside that the requirement does not refer to 'anything *material* to add', it is unclear what this new language means and how it differs from the test for an emphasis of matter. An emphasis of matter merely draws the reader's attention to material uncertainties about going concern that the directors have described in their disclosure. Requiring the auditor to add to the directors' disclosure could be interpreted as indicating that this disclosure is deficient in some respect and that the auditor is qualifying the audit report.

Q11: Do you agree that it is appropriate for the Supplement to confirm that central bank support for a solvent and viable bank does not necessarily constitute a material uncertainty? In particular, do you agree that central bank support (including under ELA) may be regarded as in the normal course of business where the bank is judged to be solvent and viable? Do you agree that the approach set out in the Supplement to assessing whether there is a material uncertainty is appropriate and consistent with the general approach in the Guidance? If not, why not and what changes should be made to the Supplement to the Guidance?

- 54.** Yes, we agree with this position.
- 55.** However, we are unclear how this conclusion in respect of banks and the Supplement are consistent with the Guidance for non-banks which, by requiring directors to obtain a high level of confidence over the 'foreseeable future', we believe sets too high a bar and appears to require virtually all companies to disclose material uncertainties. This suggests there is some incoherence between the application of the Guidance to banks as opposed to other types of company. It would be helpful to clarify the relationship between the Supplement and the Guidance, and to ensure its consistency with it, so the Supplement does not distract from the

guidance or result in unintended extrapolations. For example, in what situations should non-banking companies assume that funding being available means they should be considered to be solvent?

56. We also note that, even though this supplement may require no additional disclosures in respect of reliance on central bank facilities, there could still be other regulatory requirements that would mandate disclosures to be made. For example, the Listing Rules require that a statement be made that the business is a going concern, together with supporting assumptions as necessary. It might be expected that a bank would make such disclosures when it is reliant on emergency central bank facilities.

Q12: Do you consider the proposed implementation date to be appropriate? If not, why not and what date should the application date be?

57. No, we do not consider the implementation date to be appropriate. Even if the Guidance were in final form, there would still be insufficient time to apply it to September 2013 year-ends. The issues we have identified in this representation letter make it critical that the implementation date is deferred to allow both these issues to be resolved and a further public consultation to be held.
58. It is essential that businesses of all sizes are given enough time to understand and plan for implementation of the Guidance. The proposed implementation date means that, for most businesses, the financial period has already begun. However, directors do still not have the final version of the Guidance with which to plan for implementation. We suggest that the implementation date is set sufficiently far in the future to provide directors with an appropriate period to review the final version of the Guidance.
59. It is proposed that the Guidance should be applicable to financial years beginning on or after 1 October 2012. If the Guidance is issued in July, the requirements of paragraph 2.34 would make it immediately applicable to the interim financial statements of businesses with 2013 calendar year-ends. This is clearly an unacceptable and impossible burden on business. Our strong belief is that the implementation date should be deferred until the Guidance can be reworked.
60. Proposals to revise the European Accounting Directives are expected to amend the reporting requirements on small and micro entities on a 'maximum harmonisation' basis that would preclude any additional requirements being imposed at a member state level. We think it is inappropriate to introduce new burdens now, while the reporting regime for small and micro entities is known to be changing and we advise the FRC to delay until after the government has determined how it intends to implement the revised Accounting Directives.
61. Delaying the implementation date would allow the FRC to coordinate the Guidance with the forthcoming revisions to its guidance on internal control and risk management and also to take account of developments made by the IAASB in the area of audit reports.

Q13: Do you believe that the Guidance will deliver the intended benefits? If not, why not? Do you believe that the Guidance will give rise to additional costs or any inappropriate consequences? For example, as compared with the 2009 Guidance, do you believe that the Guidance will give rise to fewer companies being judged to be a going concern and/or more companies disclosing material uncertainties? If so, what are the key drivers and can you give an estimate or indication of the likely cost or impact? Do you believe that such additional costs or impact would be justified by the benefits?

62. No, we do not believe the Guidance will deliver the intended benefits. Compared to the 2009 Guidance, we believe that the proposed Guidance will result in a very large number of companies unjustly being required to report qualified going concern statements and, as a result, material uncertainties in their accounts and audit reports. The impact on business confidence will be both significant and disastrous.

63. We do not believe it is legitimate for the FRC to seek comments on the costs and benefits of the Guidance without first having made its own effort at a substantive regulatory impact assessment. It is disappointing that the FRC has left it to the consultation process to identify the costs associated with its proposals, rather than estimating them itself. While we recognise the time, costs and difficulties involved in preparing a regulatory impact assessment, these need to be built into the work programme. The Guidance impacts all UK companies, so it is vital that the FRC estimates the costs and benefits up front, rather than asking investors and practitioners to bear the costs by finding out through implementation that the Guidance is not workable. Additionally, an impact assessment, however rudimentary, will provide valuable learning on how to perform the exercise better in the future. In the absence of such an assessment, we do not believe the FRC can or should claim that the public interest is likely to be served, nor is it in a position to ask respondents the same question, particularly given the level of concern over these proposals raised in our response.
64. While the Guidance will be unnecessarily onerous and negative even for listed companies, we fear that it will be particularly so for subsidiaries. The review of going concern for a subsidiary will share many of the risks with its parent company. Unless the accounts are prepared at the same time as its parent company, the subsidiary will need to redo the review of going concern. While we agree that subsidiaries' accounts ought to be prepared on a timely basis, we are not convinced that asking them to redo an unnecessarily onerous task is the right way to encourage that behaviour. We suggest that careful thought is given to how to make the Guidance proportionate to subsidiaries.

Q14: Do you agree with the approach to SMEs in the Guidance? If not, why not and what changes should be made to the Guidance?

65. No, we do not agree with the approach to SMEs in the Guidance. The 2009 guidance was developed from the 'bottom up', with the needs of SMEs considered first and the additional requirements of larger and listed companies specified incrementally. By contrast, the Guidance effectively requires SMEs to follow the requirements for larger and listed companies in full. We recommend that the FRC completely redraft the Guidance, using the 2009 guidance as a starting point and building the Sharman Panel recommendations into them. This should be done in a way that begins with the requirements for SMEs and layers on additional requirements for larger entities.
66. Footnote 14 to the Guidance refers to the 2009 Update for Directors. As the 2009 Update was developed to assist directors in complying with the previous guidance on going concern, and the Guidance adopts an approach that is incompatible with the previous guidance, we cannot understand how directors of SME companies can use the 2009 Update to comply with the Guidance.

Q15: Are there any other matters which the FRC should consider in relation to the Guidance and the Supplement? If so, what are they and what changes, if any, should be made to address them?

67. The 2009 guidance used headings to signal which parts of the guidance were relevant to each type of company. It also used tables to present requirements in a clear, understandable way. In the next draft of the Guidance, we recommend that better consideration is given to layout and to removing unnecessary length from the text, in order to help directors understand it more easily.
68. The Auditing Practices Board's Bulletin 2008/10, *Going Concern Issues During the Current Economic Conditions*, provided guidance on a number of going concern issues that auditors were likely to encounter as a result of the economic environment. The Bulletin will be superseded by the changes in the Guidance, and will need to be either revised or withdrawn once the Guidance is finalised.

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