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15 January 2016

Deepa Raval
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Dear Sir

Consultation: Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity risks (Guidance for companies that do not apply the UK Corporate Governance Code)

Kreston Reeves LLP appreciates the opportunity to respond to the consultation document issued by the Financial Reporting Council in October 2015 on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity risks.

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 30 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients, including AIM listed companies, but predominantly we operate in the SME market providing audit and other accountancy services. We are a member firm of Kreston International, a global network of independent accounting firms.

Scope

Q1. Do you agree with the scope of the guidance as set out in section 1?

Q2. Is the guidance sufficient for the different types of company that fall within its scope?

In principle we agree with the proposed scope of the guidance. However, the scope is extremely broad and potentially covers a diverse range of companies from micro-entities up to and including AIM listed companies. In addition, the guidance is described as 'non-mandatory, best practice guidance' although it clearly incorporates some mandatory legal requirements, for example, the principle risks and uncertainties facing companies that need to be disclosed within the strategic report, where this is required.

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We are of the opinion that the draft guidance would benefit from additional clarification to make it easier for a user of the document to distinguish between the mandatory legal requirements that relate to the different sizes of company and the sections that provide guidance on how to comply with those legal requirements. This would assist users in identifying which parts of the guidance are of direct relevance and which can be ignored. This is likely to encourage smaller companies and their advisors to better utilise the guidance document by giving them the ability to pinpoint the relevant parts without the necessity of absorbing the guidance in its entirety.

Solvency and liquidity risks

Q3. Do you agree with the draft guidance on the assessment of solvency and liquidity risk as set out in paragraphs 4.1 to 4.6?

Although we agree in practice with the proposed assessment of and level of disclosure in relation to solvency and liquidity risk, it is generally extremely difficult to encourage privately owned companies that are required to prepare a strategic report, to include such disclosures within this report. The disclosure of risks and uncertainties surrounding a company's solvency and liquidity position can have a detrimental affect on that company's credit-rating and therefore its relationship with suppliers and customers and also its ability to source additional financing. The draft guidance would benefit from a more practical discussion of solvency and liquidity risks and what this means in practice for the directors in their role as officers of the company.

The guidance states that, except in rare circumstances, the assessment period should be significantly longer than twelve months from the approval of the financial statements. For many smaller companies that will be applying this guidance, it will not be practical for the directors to obtain reliable and relevant financial information to make an assessment of solvency risks and liquidity risks for such an extensive period. We would suggest that consideration is given to amending or clarifying paragraph 4.8.

Linkage

Q4. Does the draft guidance sufficiently distinguish between the assessment of and reporting on the 'narrow' going concern basis of accounting (section 3) and the broader concept of solvency risk and liquidity risk (section 4)?

Yes, we agree that the guidance is clear in this respect.

Q5. Does the draft guidance adequately highlight the relationships between the concepts (section 2)?

Yes, the draft guidance adequately highlights the relationships between the concepts.

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Practical application

Q6. Do you consider that the guidance is sufficiently practical? If not, how might the guidance be improved?

In general we consider the guidance to be sufficiently practical, although we believe that it could be further improved upon.

In particular we have found the example disclosures contained in the appendices to the FRC's previous guidance on going concern issued in October 2009 most helpful, and we are of the opinion that similar examples would be of equal benefit if they were included as part of the updated guidance that is now proposed.

Should you have any questions regarding the contents of this letter please contact Peter Manser at the address shown.

Yours faithfully

Kreston Reeves LLP