

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

By email to: ukfrs@frc.org.uk

18 December 2015

Dear Ms Raval

Exposure Draft: Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks

Deloitte LLP is pleased to respond to the FRC's Exposure Draft: *Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks*. We have set out our detailed responses to the consultation questions in the Appendix to this letter.

We generally support the draft guidance and believe it will be useful for those within its scope. However, we believe that small and micro-companies should be more clearly excluded from its scope.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Ken Rigelsford on 0207 007 0752 or krigelsford@deloitte.co.uk.

Yours sincerely



Veronica Poole
National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix

Responses to detailed questions

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

We do not believe that the scope of the guidance is explained sufficiently clearly in section 1. It states that the guidance “is not primarily directed at” small and micro-companies but then explains that “there may be some aspects that are of relevance” to them. This presents a very confusing message, particularly given the non-mandatory nature of the guidance.

The objective of the guidance should be to help companies apply the underlying requirements of the law and accounting standards. It should not impose additional requirements that go beyond what is required by law and accounting standards. On this basis, the guidance is not applicable to entities that are not subject to the relevant underlying requirements.

We acknowledge that there is a difficulty that is not of the FRC’s making, which is that the financial statements of small companies are required to give a true and fair view despite the legal prohibition on including mandatory disclosures about going concern in Section 1A of FRS 102. However, we believe that this should be addressed by clearly excluding small and micro-companies from the scope of the guidance. This would not prevent such entities and their advisers consulting the guidance if they chose to do so but would avoid any implication of an expectation that they should have read the guidance and applied it. This approach would also avoid the risk of the FRC being seen as introducing disclosures through the back door.

Question 2 Is the guidance sufficient for the different types of company that fall within its scope?

Yes, we believe that the guidance is sufficient for the different types of company that fall within its scope.

Question 3 Do you agree with the draft guidance on the assessment of solvency and liquidity risks as set out in paragraphs 4.1 to 4.6?

Yes, we agree with the draft guidance on the assessment of solvency and liquidity risk. However, it should be made clearer that this section is dealing with those risks within the context of their disclosure in the strategic report. For example, the comment in paragraph 4.8 that, except in rare circumstances, the assessment period should be significantly longer than 12 months is not intended to apply to the assessment of the going concern basis of accounting. This could easily be misunderstood.

Question 4 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)?

We agree that overall the draft guidance does sufficiently distinguish between the assessment of and reporting on the 'narrow' going concern basis of accounting and the broader concept of solvency risk and liquidity risk. However, there is some potential for confusion regarding paragraphs 3.15 to 3.17 which discuss liquidity risk and solvency risk disclosures required by accounting standards within the section dealing with the going concern basis of accounting.

Question 5 Does the draft guidance adequately highlight the relationships between the concepts (section 2)?

Yes, we believe that overall the draft guidance adequately highlights the relationships between the concepts. However in section 2 it would be useful to include a paragraph linking the two sections on 'The going concern basis of accounting' and 'Risks and uncertainties' to illustrate better the connection between the two concepts. This is covered by Figure 1 but it would be helpful to include it within the text as well.

Question 6 Do you consider that the guidance is sufficiently practical? If not, how might the guidance be improved?

Yes, we consider that the guidance is sufficiently practical with sections 5 and 6 providing useful general points to consider and techniques that may be applied in identifying principal risks and uncertainties and assessing whether the going concern basis of accounting is appropriate. We approve of the decision not to include any examples of disclosures as this will discourage use of these as boilerplate.

Other comments

1. Once the FRC has finalised this guidance, it would be helpful if the guidance for auditors in APB Bulletins 2008/1 and 2008/10 (which are based on the 2008 Guidance which predated the 2009 Guidance) was updated to reflect both the finalised draft Guidance and the listed company guidance. To future proof such bulletins, these could anticipate the revision to ISA (UK and Ireland) 570 which will take effect from 17 June 2016, which proposes that auditors will be required to report positively on the appropriateness of adoption of the going concern basis and the existence or otherwise of material uncertainties.
2. Paragraph 7.9 reproduces some, but not all, of the words in paragraph 18(b) of ISA (UK and Ireland) 570. It would be helpful if the full words were used as in paragraph 66 of the existing 2009 Guidance.
3. Paragraphs 7.10-7.14 could also usefully be future-proofed by anticipating the revision to ISA (UK and Ireland) 570 referred to above and the parallel revision of ISA (UK and Ireland) 720 which broadens the auditors' "read" duty in relation to other information.