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Dear Ms. Raval,

**Exposure Draft: 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**

***Introduction***

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting and Corporate Governance Expert Groups have examined your proposals and advised on this response. A list of members of the Expert Groups is at Appendix A.

***Response***

We welcome the opportunity to respond to this consultation. We generally welcome the FRC's initiative to gather views on its Guidance for companies that do not apply the UK Corporate Governance Code. We have pointed out in our responses to specific questions where the guidance provides good practical examples as well as highlighted some of the areas where we believe some improvements could be made.

***Responses to specific questions***

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

Section 1 of the draft Guidance provides an introduction and seeks to establish the overall context and paragraph 1.2 defines the companies picked up; however, attention is then given to small and micro-companies, which readers may find confusing.

Paragraph 1.2 also refers to *"the focus on principal risks and uncertainties within the strategic report"*; however, the rest of the document only concentrates on the solvency and liquidity risks. Consequently, the scope section does not provide a bridge between the full *'Guidance on Risk Management, Internal Control*

*and Related Financial and Business Reporting'* and this guidance for companies outside of the UK Corporate Governance Code regime. We believe that it could be interpreted that only larger companies need to focus on the broader response to the concepts of risk management and internal control (please see our response to Q5).

Overall, we find the scope confused when addressing small and micro-companies. In our opinion, the themes discussed in the Guidance are relevant to small and micro-companies, though the application needs to be proportionate. We feel that this could be dealt with in a clearer manner by having a separate section of the Guidance written for smaller companies.

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

As noted above, the draft Guidance does define the companies that fall within its scope, but some companies may struggle with some of the detail and the evidence expected. The Guidance does emphasise that a lot of the focus needs to be placed on meeting the requirements with reference to the size, complexity and circumstances of the company, but much greater guidance could be provided in this respect. We believe that the FRC should consider incorporating some of the ideas from the 2009 guidance, including the help aide memoire for directors as a separate appendix.

**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?**

The initial statement under 4.1 sets out the overall approach and the definition of solvency and liquidity risk are clear. The assessment process itself is not addressed under the heading but is sign-posted to more detail in section 5.

We would welcome greater guidance being provided on the assessment period in 4.8. Smaller companies tend to have less sophisticated planning mechanisms and medium term budgeting. We believe that some further guidance for these entities would be helpful.

**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)?**

Subject to our comment to Q6, we believe that the overviews provided in sections 3 and 4 would seem to give the right balance of explanation of the two main concepts.

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

As noted in our response to Q1, whilst there is reference to the general concept of 'Risk and uncertainties', there is no link made with the extended guidance on risk management and internal controls.

We believe that the diagram presented could be improved, as liquidity and solvency risks may not be the principal risks of the company, especially if the control activities in place are strong. The circles in the diagram do not provide a logical sequence to reach the conclusion of what is determined to be an "inappropriate going concern basis". Therefore, we believe that a linear decision-tree diagram might be a better way to represent the key areas and the steps to follow.

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

In terms of being practical, the use of tables in 3.14 and 3.15 work well, as does the example presented in 4.16 and the various areas to consider set out in 5.7. Nevertheless, we believe that there could be more practical guidance on how the concepts are applied (set out in simple terms) as well as real life examples.

Many companies will assume that, in practice, because there are no material uncertainties about the use of the going concern basis of accounting, there are no material liquidity or solvency risks. We believe that if the FRC wishes to challenge this approach, it should be much clearer about the circumstances when there may not be a material uncertainty about the use of the going concern basis of accounting but there may still be material liquidity and solvency risks.

Given the typical size and focus of the companies that will follow the Guidance, Appendix A may not be entirely appropriate. We understand that the use of sections such as “questions for the board” or example warning signs are often well received. Smaller entities may well also regard the assessment process set out in Section 5 to be very theoretical and not very practical. As mentioned above, giving more explicit guidance for smaller companies would help the Guidance be more practical.

If you would like to discuss our responses in more detail, we would be happy to attend a meeting.

Yours faithfully,



Tim Ward  
Chief Executive

**Quoted Companies Alliance Financial Reporting Expert Group**

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Shalini Kashyap	EY
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