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Governance in brief
Going concern – Sharman implementation delayed

Headlines

The Financial Reporting Council has announced that implementation of the Sharman Panel recommendations will be delayed until 2014.

Background

In January 2013 the FRC issued a consultation paper on how best to implement the Sharman Panel's proposals on going concern. Following the feedback received from the consultation exercise, the FRC has announced that it will be consulting further and revised proposals are now expected to take effect in October 2014.

What will happen next?

The FRC will be consulting in Autumn 2013 on three matters:

- integrated going concern and risk management guidance for entities applying the UK Corporate Governance Code. This will incorporate the expected consultation on the Guidance on Internal Control (formerly known as the Turnbull guidance);
- proposed changes to the UK Corporate Governance Code to reduce the confusion between the use of the words "going concern" to refer to two different things:
  - the specific assessment required by accounting standards as to whether the going concern basis should be adopted in preparing the financial statements; and
  - the broader assessment of risks affecting a company's viability, which may be reflected in the strategic report (formerly the business review) and, in particular, the going concern statement required by Listing Rule 9.8.6R(3); and
- separate, simplified guidance for SMEs. The feedback received was that the guidance needed to be more proportionate for SMEs.

Is action needed in 2013?

The delay means that the FRC's *Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009* will continue to apply until the FRC issues revised guidance and the relevant accounting standard requirements are unchanged. Nevertheless, the FRC's announcement encouraged all companies to consider and adopt the Sharman Principles. In practical terms, we suggest that this means that directors of larger companies will want to:

- make a robust assessment of the significant risks facing the company's ability to deliver its strategy which includes significant solvency and liquidity risks and looks beyond the next twelve months; and
- review and agree how the identified risks will be mitigated.

As a reminder solvency risk is about the sustainability of a company's business model and the maintenance of its capital. It underpins the longer term ability of the company to obtain and maintain debt funding as well as equity capital for the business. It is important to understand how the likely future success of the business will be perceived by providers of equity, debt and trade credit in assessing likely access to funding and liquidity (for example, doubts about the future success of a company's business model could result in short term funding becoming harder, or even impossible, to obtain).

In addition, we suggest that the process of risk assessment and management should be ongoing and should inform a number of different disclosures:

- the principal risks required under the Companies Act – ideally this should include a description of the risks, an explanation of why they are significant, whether the significance has changed in the last reporting period and how the company aims to manage and mitigate the risks;
- the internal control statement; and
- the going concern statement.

Deloitte View

Notwithstanding the deferral of, and further consultation on, the Sharman Panel recommendations, the encouragement to consider medium term solvency risks against the context of a company's business model is, in our view, a good thing.

More information

A copy of the FRC's press notice can be obtained from **www.frc.org.uk**

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