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Dear FRC colleagues,

Exposure draft: Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks)

We welcome the opportunity to respond to your exposure draft Guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risks).

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

We welcome the FRC's efforts in updating the current guidance on the Going Concern Basis of Accounting and Related Reporting (including Solvency and Liquidity Risk) which can serve as a useful tool for companies. However, while we recognise that the Guidance is "intended to serve as a proportionate and practical guide for directors of all companies within its scope", we believe that it could provide greater size and sector-specific information for companies.

In our response, we provide our overarching views on the consultation relating to the key themes of the appropriateness of the guidance's scope and its proportionality while also focusing on the areas of the Basis of Preparation; Significant judgements; assumptions and other sources of estimation uncertainty; True and Fair Value, and risk evaluation techniques.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton.

James Ashton
Chief Executive

Q1 Do you think the scope of the draft Guidance as set out in Section 2 is appropriate? If not, why not?

In general, we have no issue with the scope of the draft guidance. However, we believe that the guidance would benefit from greater sector and size-specific information for companies. On this point, please refer to our comments in Q2.

Q2 Is the draft Guidance sufficient for the different types of company that fall within its scope, particularly for Code companies? If not, what additional guidance do you consider necessary or beneficial?

This guidance covers a broad range of companies across the LSE's Main Market, AIM, Aquis, and private companies. Focusing solely on public companies, there is a significant amount of diversity in size, with small and mid-sized quoted companies forming a majority of public companies. For example, 80% of companies on the Main Market and AIM have a market capitalisation of less than £1 billion, which is considered by most definitions to be small and mid-cap[1].

Companies of different sizes, sectors and complexities have unique pressures. For example, smaller companies tend to have comparatively smaller finance teams which are often stretched to meet the volume of reporting requirements, while the additional level of resources they can dedicate to meeting disclosure requirements is limited.

This has broader implications for smaller companies when auditing their accounts as it creates a potential gap between the information companies provide and the information needed by auditors when conducting their work. Recent QCA research found that this is a contributory factor to the increased cost of audit for smaller companies as auditors spend more time with the company in order to arrive at a more complete view[2]. Indeed, audit fees increased by 75% for sub-£500 million companies across the Main Market, AIM and Aquis from 2017/18-2022/2023[3].

Within this context, guidance for companies when preparing disclosures for their accounts is highly valuable and must be proportionate and flexible to their unique size and circumstances. While the guidance does state that companies should provide disclosures that are company-specific, the guidance does not fully take the aforementioned factors into account. We believe that the guidance's content could be better tailored to account for the specific challenges that companies of different sizes encounter when producing going concern assessments.

Q3 Do you think the guidance in Section 3 about the overarching disclosure requirements, including the requirements to report on significant judgements, assumptions and other sources of estimation uncertainty, when applicable to going concern assessments, is helpful? If not, how it could be improved?

We believe that there are areas of the guidance in Section 3 that could be improved.

For example, in Section 3.25 on the Basis of Preparation, the Guidance states that "A company facing greater uncertainty and with less financial headroom should provide more detail than one without such challenges, including details about any material uncertainties, significant judgements, assumptions and other sources of

[1] Data from the London Stock Exchange demonstrates that, as of September 2024, across both the Main Market and AIM there are 1,360 companies within the £0-£1bn market capitalisation range of a total of 1,695 companies. Taken from LSE (2024): Main Market Factsheet September 2024 and AIM Factsheet September 2024.
[2] Quoted Companies Alliance. *It doesn't add up: The crisis of unaffordable audit.* (2024). p.8.
[3] Ibid. p. 3.

estimation uncertainty, as discussed in the following paragraphs." This does not align with the FRC's stated intention of creating guidance that is proportionate as it does not factor in the challenges that smaller companies may encounter. Specifically, smaller companies, when required to make disclosures when facing greater financial uncertainty, will face more resource constraints than their larger counterparts who will likely have greater internal capacity to handle these disclosures.

Similarly, in sections 3.30 and 3.33, the Guidance states that companies should provide company-specific information to meet the relevant requirements and lists a set of information requirements that would be useful for companies to include when making the disclosures. In order to better support companies in making these disclosures, we believe that the use of real-world examples, specific to companies of different sizes, would be beneficial. For instance, the examples of the types used by in Corporate Reporting Review thematics or the 2022 FRC Publication "What makes a good annual report and accounts" from 2022 would illustrate the points effectively.

In the area of True and Fair Value, we believe that the Guidance ought to provide greater clarity to company directors in order to make the relevant disclosures. For example, section 3.37 states that "In some circumstances there are grounds for disclosure beyond the explicit reporting requirements in accounting standards." However, it does not provide any further information for companies to decide what grounds may require this and the relevant factors to consider when making these judgements. Further, a non-exhaustive list of real-world examples would benefit company directors in knowing when there are grounds for further disclosure beyond explicit reporting requirements.

Specifically, further guidance and a non-exhaustive list of examples or illustrations of what constitutes a significant event or condition (similar to the table in paragraph 5.13) would be helpful for directors. Similarly, an attempt to more precisely define different probabilities used in the guidance – for example, defining a probability that is "remote", and how that compare to "plausible" – would likely help directors make the necessary assessments and judgements in the preparation of going concern assessments and disclosures.

In addition, IAASB guidance on ISA 570 from 2022 highlights the possibility of "close call" situations where the disclosures of significant events or conditions are fundamental to the users of the financial statements understanding. It is these events or conditions and the relative probabilities and judgements that directors are likely to need more guidance around.

Q4 Do you have any comments on the guidance about the assessment process as set out in Section 5 of the draft Guidance?

In the section Techniques (paragraphs 5.30 – 5.34), we welcome the FRC's inclusion of the different tests available to company directors when making risk evaluations. This should aid companies in their understanding of the different options available to them when evaluating risk. However, this section lacks sufficient information on the appropriateness of different tests for different types of companies according to size and sector (ie. Financial institutions vs. corporates) or their position in the business lifecycle (i.e., newly listed or early-stage companies may need more guidance on the level of detail needed in their assessments). As alluded to in the guidance, the assessments for these kinds of companies can be more complex than for established businesses.

Moreover, smaller companies may be less able to conduct more extensive forms of evaluations such as reverse stress testing due to the costs involved. The guidance would benefit from further information that recognises the cost limitations that smaller companies may face in this area and the appropriateness of different evaluation techniques for companies of different sizes and sectors.

Q5 Do you think that the draft Guidance is sufficiently proportionate? If not, how can the draft Guidance be improved?

We do not believe that the draft Guidance is sufficiently proportionate. Please refer to our comments in Q2, Q3 and Q4 on this point.

Q6 Do you have any other comments on the draft Guidance?

No – we have no further comments.

Appendix A

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group*

Rochelle Duffy (Chair)	**PKF Littlejohn LLP**
Tom Stock (Deputy Chair)	**Haysmacintyre**
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Simon Cooper	KPMG LLP
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Ensilica
Clive Lovett	Kinovo PLC
Sandra McGowan	BDO LLP
Jennifer Ilsley	Grant Thornton UK LLP
James Nayler	Mazars LLP
Mathew Stallabrass	Crowe UK LLP