



Governance in brief

Your summary of the latest corporate governance developments

Headlines

- The FRC issues an exposure draft bringing together guidance for directors on going concern and liquidity risk.
- Deloitte believes that the Combined Code's principles and 'comply or explain' remain fit for purpose.
- The FRC proposes principles and actions for making corporate reports less complex and more relevant.

The FRC issues an exposure draft bringing together guidance for directors on going concern and liquidity risk

In Brief: The FRC has issued an exposure draft 'Going concern and Liquidity Risk: Guidance for Directors of UK Companies'. It brings together the following three documents:

- 'Going concern: Guidance for directors of listed companies' issued in 1994;
- 'Going concern and financial reporting: An update for directors' issued in November 2008; and
- 'An Update for Directors of companies that adopt the Financial Reporting Standard for Smaller Entities (FRSSE): Going Concern and Financial Reporting' issued in March 2009.

It builds on all three of these documents and provides guidance on both the process to be adopted by directors and the disclosures required on going concern. The exposure draft does not propose any significant changes from the current three documents but has recast these into four principles, each with supporting guidance.

- 'Directors should make a formal and rigorous assessment of whether the company is a going concern when preparing financial statements intended to give a true and fair view.
- The procedures carried out by the directors should be proportionate in nature and depth depending upon the degree to which going concern is an issue for the company and the size and complexity of the company and its operations.
- Directors should consider all information about the future that they are aware of when concluding whether the company is a going concern at the date of approval of the financial statements. Directors should disclose if the period that they have reviewed is less than one year from the date of approval of annual, half-yearly and interim financial statements that give a true and fair view.
- Directors should make balanced, proportionate and understandable disclosures about going concern in order to give a true and fair view.'

As the June 2009 half-yearly financial reporting season approaches, the FRC has clarified its belief that the period which should be considered when preparing a half-yearly financial report is no less than twelve months from the date of approval of the report.

The FRC's plan is to issue revised guidance, based on the exposure draft, in November 2009 to apply to periods ending on or after 31 December 2009.

Date: 29 May 2009

Source: Financial Reporting Council

Deadline for comment: 28 August 2009

Further info:

<http://www.frc.co.uk/images/uploaded/documents/ED%20Going%20concern%20and%20liquidity%20risk%20-%20May%2020092.pdf>

Deloitte believes that the Combined Code's principles and 'comply or explain' remain fit for purpose

In Brief: Deloitte has submitted a response to the Financial Reporting Council's call for evidence on the effectiveness of the Combined Code. In summary, our views are that:

- the principles in the present Combined Code remain fit for purpose for UK corporates and that the current economic conditions have not demonstrated that the Code is fundamentally flawed;
- three areas are worthy of further investigation at this time to determine whether the Code's provisions and related guidance should be amended. These areas are:
 - i. the role of investors;
 - ii. the Code provisions on remuneration; and
 - iii. the topic of risk and whether the supporting guidance on internal financial control should be reviewed to determine whether risk may be handled better therein;
- any potential changes to the Code should be tested to determine if they are codifying existing best practice which is valued by market participants. If they do not pass this test, there should be extremely strong evidence that such changes are essential to sound corporate governance in the UK; and

- there should be no change to the Code's "comply or explain" approach or to setting out clearly the principles of corporate governance. Removal of unnecessary, perceived as box-ticking, detailed provisions is encouraged.

The full text of our submission is available from the link below.

Date: 29 May 2009

Source: Deloitte

Further info: www.deloitte.co.uk and then Services/Audit/Corporate Governance

<http://www.frc.org.uk/corporate/reviewCombined.cfm>

The FRC proposes principles and actions for making corporate reports less complex and more relevant

In Brief: The FRC has published a discussion paper arising from its project on reducing complexity in corporate reporting. The paper's title – 'Louder than Words: Principles and actions for making corporate reports less complex and more relevant' – is intended to remind all those involved in corporate reporting that it is what we all do in practice that affects the quality and readability of corporate reports.

There are growing concerns about the complexity of corporate reporting. Many people point to the increasing length and detail of annual reports – and the regulations that govern them – as evidence that we have a problem.

The paper recommends a common sense approach to reducing complexity based on eight guiding principles – four for better communication in reports and four for improving the quality and effectiveness of regulations. It also recognises that there is no easy solution and that change will only happen if all of those involved in corporate reporting make a concerted effort.

Date: 4 June 2009

Source: Financial Reporting Council

Deadline for comment: 30 October 2009

Further info:

<http://www.frc.org.uk/press/pub1994.html>

Time to take action

- If not already done, review current governance practices and be satisfied they will stand up to scrutiny – in particular focus on the effectiveness of risk management frameworks, anti-fraud controls, remuneration policies and engagement with shareholders.

On the horizon

- Publication of Sir David Walker's review of bank governance.
- Follow-up to the FRC's call for evidence on the operation of the Combined Code.

For further information, visit the Corporate Governance section of our website at www.deloitte.co.uk (Services/Assurance & Advisory).

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