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30th June 2011

Dear Sir or Madam,

As Chairman of the Audit Committee of the Standard Chartered Group, I am pleased to present our views in response to the Sharman Inquiry's Call for Evidence. The attached paper sets out our responses to the questions posed in the request for written evidence, which reflect the perspectives of an international banking group and its experiences during the recent Global Financial Crisis and other crises including the Asian Financial Crisis.

The scale of regulatory reforms that are being applied to the banking industry are unprecedented and are designed to increase significantly the financial stability of individual firms and the industry as a whole. These reforms are intended to increase the strength of banks' capital and liquidity positions so are very pertinent to the work of the Inquiry, hence should be taken into consideration. The cumulative impact of the various banking reforms have not been properly assessed, which raises concerns about their impact on the banking industry and the wider economy. The Inquiry needs to ensure that its recommendations are complementary to the reforms already being implemented in the banking industry and we would encourage the Inquiry to consider how such reforms may be applied more broadly to other industries, e.g. the requirement to maintain adequate buffers of liquid assets to withstand stress events.

Whilst I recognise that there may be a need to enhance certain aspects of the going concern assessments undertaken by firms' directors and auditors, I am not convinced that there is much wrong with the status quo. The going concern assessment presents a conundrum, particularly in times of economic uncertainty when there may be no "right" answer. In considering how best to resolve this conundrum, we should recognise that judgement is at the heart of the assessment and this cannot be prescribed. The Inquiry should aim to provide further guidance on how directors undertake their going concern assessments, taking into account the best information available at the time and making sensible, conservative assumptions.

It is important to recognise the limitations in some of the areas being explored by the Inquiry. One of the areas that the Inquiry is considering is around disclosure. The banking industry has been required to disclose progressively more and more information, including detailed capital

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and risk disclosures under Pillar 3 of the Basel II capital framework. The value of such disclosures is unclear as they do not appear to be used widely, possibly because they include detailed technical information that may not be easily understood. It should not be assumed that additional disclosure will necessarily lead to an improvement in the going concern assessments undertaken by firms, given the tendency for the markets to be relatively short term in their outlook.

Forcing companies to disclose too much detail about uncertain future events, even if the likelihood is explained, could precipitate a failure by causing an inappropriate reaction from bankers, suppliers and other counterparties to an otherwise viable enterprise. Disclosures about artificial stresses and assumptions could lead to mischief from certain market participants. There appears to be a fundamental misunderstanding of market dynamics and how these are evolving – hedge funds, momentum trading and short tenor trading are much more prevalent and can have a significant impact on the market. There needs to be a balance between disclosure, trust in company law and directors' responsibilities when considering how going concern assessments should be conducted in the future. Given their recent experience, I would suggest that the Inquiry engages key main board directors and auditors of companies such as HMV and Southern Cross to determine how they see the challenges of going concern disclosures. Northern Rock is another good lesson from which to learn – its failure was due to the vulnerability of its business model and not due to any lack of disclosure.

There are other more effective tools that could be employed across all industries such as running stress tests and scenario analyses. These have been used by the banking industry for a number of years to assess the resilience of individual firms and the industry as a whole. There have been criticisms of the stress tests undertaken across the EU, but they remain an important discipline that could be used in other industries. We would caution against publishing the results of stress tests as the results of hypothetical scenarios may be misinterpreted, but such analyses can provide invaluable insights into a company's resilience to its board and senior management team.

I would be pleased to respond to any questions contained in this submission or to provide further details of my views and experiences.

Yours faithfully,

Rudy Markham
Chairman of the Audit Committee

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Responses to call for evidence

Transparency of going concern and liquidity risk

Q1: What combination of information about:

- **the robustness of a company's capital;**
- **the adequacy of that capital to withstand potential losses arising from future risks; and**
- **the company's ability to finance and develop its business model,**

would best enable investors and other stakeholders to evaluate the going concern and liquidity risks that a company is exposed to? How effectively do current disclosures provide this information?

Banks' capital and liquidity levels have been the subject of much debate in the aftermath of the recent financial crisis, and significant steps have been taken by the UK and international regulatory community to increase capital and liquidity standards globally, including increasing disclosure requirements. Further regulatory changes are being implemented internationally as part of the Basel Committee on Banking Supervision's reform package (commonly referred to as Basel III), which will ensure that banks hold significantly more and higher quality capital to absorb losses, in line with the underlying risks they assume. A number of balance sheet items such as intangible assets and deferred tax assets will be required to be deducted from the regulatory capital disclosures made by banks in their interim and annual reports and accounts to present a more conservative view of capital. Other required deductions will ensure that the regulatory capital disclosed by banks will be fully available to absorb potential losses in the future. These new regulations will be implemented from 2013 including the requirement to disclose a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements and a separate disclosure of all regulatory adjustments. The Basel Committee will issue more detailed disclosure requirements later in 2011.

The new liquidity regulations require banks to hold substantial stocks of highly liquid assets which enable them to continue meeting their financial obligations in the event of a significant stress scenario. In addition, banks will be required to maintain more stable funding sources to support their ongoing operations. The disclosure requirements will require this information to be published, enabling investors, regulators and other stakeholders to evaluate banks' relative liquidity and funding positions.

We believe that the new regulatory disclosure requirements for the banking industry will provide adequate information for investors and other stakeholders, and given the comprehensive disclosures that banks must make around capital and liquidity, we do not believe that further disclosures would be warranted. The Bank of England announced recently an intention to require banks to publish some of their regulatory returns. We are concerned about the implications of such a move due to the confidential nature of much of the information contained in banks' regulatory returns and the potential for such information to be mis-applied by the market given its very different focus and judgement to those of banking regulators. It should not be assumed that the markets' views will

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always be "good" when in reality they tend to have a short term outlook, searching for directional volatility. In times of crisis or stress, the markets do not always behave rationally, so any reliance on them for insights into the longevity of individual firms or industries should be limited.

Q2: What type of disclosures (if any) have been made into the market place outside annual and interim corporate reports about current stresses being experienced by the company and about the management of those stresses? How do these disclosures interact with the requirement to disclose principal risks and uncertainties in the Business Review and the required disclosure on going concern and liquidity risk in the annual and interim financial statements?

Banks are required to publish specific details about their capital structures and major risk exposures annually to meet regulatory disclosure requirements under Pillar 3 of the Basel II framework. These include descriptions of the governance around our stress testing and the processes employed to assess the impact of stresses for the major risks faced by the organisation. These disclosures are complementary to those presented in the annual and interim financial statements. However, the effectiveness of the Pillar 3 disclosures at promoting resilience in the banking industry is questionable given the experience of the financial crisis. We believe that overly complex disclosures provide limited value to market observers, and the Pillar 3 disclosures appear to be an example of where additional data does not necessarily provide useful information.

We would like to point out that we do not advocate publication by banks of their stress test results as such analyses examine the impact of extreme hypothetical scenarios and are intended to identify potential risks and vulnerabilities so that early alert mechanisms and management actions can be put in place. There is a risk that publication of stress results by banks would lead to less robust analysis and could create more volatility in banks' stock performances.

Q3: Are there any barriers within the current corporate reporting environment to companies providing full disclosure of the risks associated with going concern and liquidity both within and outside the company's annual and interim reporting? Are there any changes that might be made to encourage companies to give fuller and more transparent disclosures in this respect?

Consistency of application and definition would help banks disclose more detailed liquidity information that would not be misconstrued by investors and analysts. However, disclosure needs to be balanced against the reputational impact a bank, which has recently suffered or is suffering a liquidity stress, of disclosing detailed liquidity metrics. There needs to be a balance between liquidity metrics that are simple enough to be clearly understood, while being sufficiently flexible to capture the complexity and diversity of the firms impacted. Standard Chartered publishes an Advances to Deposits ratio, based on International Financial Reporting Standards (IFRS) definitions, which shows the extent to which customer lending is funded by customer deposits. This is easily

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calculated and understood. An Advances to Deposits ratio of less than 100 per cent ensures that the Bank does not rely inappropriately on short-dated interbank borrowing.

Banks will be required to calculate and potentially publish a leverage ratio as part of the Basel III rules. This is meant to be a backstop measure to identify where banks are taking excessive leverage positions. The differing accounting rules applied around the world and the emerging nature of this metric means that there is potential for confusion and misinterpretation by the market. We believe that it should be used by the supervisory authorities to monitor changes in leverage rather than a measure that should be made public given its relative simplicity.

Q4: Given the current measurement, recognition and disclosure requirements of International Financial Reporting Standards (IFRS), how effective are IFRS financial statements in enabling stakeholders to evaluate the robustness of a company's capital in the context of the going concern assessment? Are there any changes that could be made to these requirements that would better enable them to do so?

For financial institutions, the robustness of a company's financial position should be assessed in the context of the liquidity and capital adequacy regimes rather than purely based on the accounting disclosures. In addition, a user's assessment of going concern may not be focused on the accounting disclosures in isolation – additional disclosures in the interim and annual report and accounts may be considered, as well as other external communications.

For all entities, the accounting disclosures reflect a "point-in-time" snapshot, and are therefore backward looking in nature. IFRS reporting does not provide forward projections, which forms the cornerstone of assessing going concern, and may also not be reflective of management's intent for the underlying assets and liabilities, although IFRS 9 is moving to a management intent type model for measurement and classification. For example, assets classified as available-for-sale are measured at fair value even though management may have the ability and intent to hold these investments for a period of time.

We believe that the current measurement, recognition and disclosure requirements of IFRS are generally sufficient in providing information to stakeholders although we support the International Accounting Standards Board's (IASB) projects to reduce complexity in financial reporting, particularly in the context of financial instruments. However, the IASB's proposals are likely to generate significant additional disclosures, the volume of which may distract stakeholders in their evaluation of a company's capital position, not only in isolation but also in comparison with its peers. It is important that the information provided to the markets helps to inform long-term views, rather than the search for short-term trends and movements.

In the context of the reliability of fair values used, one aspect of the requirements of International Accounting Standard (IAS) 39 (which has been carried over in IFRS 13 Fair value measurement) that is not "realistic" is the inability to take into account discounts to

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quoted market values for large holdings. If an entity were to place a large holding on the market, in practice it would not achieve the quoted market price and consequently this may overstate the realisation value of these securities.

For assets not held at fair value, IFRS requires recoverability to be assessed based on conditions existing at the balance sheet date, and provisions raised or assets written off based on the extent of recoverability. Therefore, at this time, this information is also historical and does not provide forward looking projections. For financial assets, the most significant asset class is loans and advances to customers, for which recoverability is assessed through the 'incurred loss' framework of IAS 39.

For financial instruments, IFRS 7 requires disclosures of risks information but again this is only reflective of conditions at the balance sheet date.

Outside of the IFRS requirements, Company Law requires a description of principal risks and uncertainties and as these are more forward looking in nature, they may provide more context in assessing the robustness of capital.

Company assessment of going concern and liquidity risk

Q5: What processes are undertaken by directors in making their assessment of whether the company is a going concern when preparing annual and half-yearly financial statements?

- **Which records and information are referred to in making this assessment?**
- ***What type of model does the company use to develop scenarios to stress-test the assumptions that have been made when making this assessment?***
- ***What types of risks are included in the going concern assessment: financial, strategic, operational, other? How are these presented in the assessment?***
- ***What is the role of the audit committee and risk management committee (where one exists) in this process and what inputs do they receive in order to carry out this role?***
- ***What impact has undertaking the going concern assessment had on the planning and management of the company?***
- ***How has the assessment of going concern and liquidity risks been incorporated into other aspects of company stewardship and reporting?***
- ***How effective is this assessment in addressing the robustness and adequacy of a company's capital and its ability to continue financing and developing its business model? What, if any, improvements could be made?***

The Going Concern assessment of the Group is conducted in accordance with the Companies Act and Listing Rules and follows, where relevant, the Financial Reporting Council's guidance.

The Group has a number of risk management processes and governance structures in place to manage and monitor core risks that could have an impact on the Group's operations or business continuity. The Group also has processes and controls to

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mitigate Business, Regulatory, Operational and Reputational risk and carries out periodic drills to test continuity plans.

In assessing going concern, the directors refer to:

1. The annual budgeting process, which is supplemented by quarterly forecast reviews during the year. The budgets are subject to rigorous internal reviews and are ultimately approved by the Board.
2. The annual strategic reviews of the businesses across the Group, including financial projections over the next 5 years.

Financial institutions are heavily regulated and as such there is a continual focus on liquidity and capital adequacy, and assessment of stress scenarios in these areas in particular. Stress tests are also performed in respect of significant risks and following the financial crisis, the Financial Services Authority (FSA) and other regulators have expanded the use and severity of stress tests required. The Group is also required to have in place an Internal Capital Adequacy Assessment Process, which assesses the extent of capital required to support the Group's strategy and business plans, and ensures that material risks are understood by the Board and suitable mitigants are in place. The results of this risk and capital assessment and a bank's future capital plans must be submitted to the FSA annually. There is a similar regulatory requirement for banks to undertake a liquidity assessment to ensure that adequate liquidity resources are in place, capable of withstanding a severe liquidity stress. This Individual Liquidity Adequacy Assessment must be completed and submitted to the FSA annually.

The Group assesses other risks that could affect its working capital, such as funding requirements, foreign exchange risks, reputational factors that could impact market confidence, regulatory factors and macroeconomic changes in its major markets. In recent assessments, this has included consideration of the impact of the changing regulatory landscape such as the "Basel III" proposals.

As a result, we believe that the going concern assessment, coupled with the myriad stress tests and oversight required by the regulators, provides sufficient support around the robustness and adequacy of capital.

The role of the Audit Committee and Board Risk Committee is to assess the extent to which management's conclusions are reasonable given the evidence reviewed and to challenge management where this is in doubt.

In addition, as a listed company, the Group has an obligation to report material events to the market as and when the Board becomes aware of them. To facilitate this process, the Group also has a Disclosure Committee which reviews the impact of significant events and passes recommendations on disclosure to the Board. Therefore, material uncertainties that would impact the ability of the Group to continue as a going concern are likely to have been released to the market before the formal annual disclosure of going concern is made.

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Q6: What is different about the review of going concern when raising capital compared to the annual going concern assessment undertaken for accounting purposes? Could some of the different procedures be used in the annual accounting or audit assessments?

When raising capital, the Directors are required to make a statement around the sufficiency of working capital and projected cash flows over the following 12 months. This is a much more specific, and targeted assessment than the broader going concern analysis. Further, when raising capital, investors are equally concerned with how the funds will be deployed and whether or not the capital raising is being undertaken to fill a funding gap rather than to expand the business. We do not consider it appropriate to extend this level of review to the annual going concern assessments over and beyond the existing framework.

Q7: Does the company assess future cash flows and liquidity on a regular basis throughout the year? If so, how regularly is this done and is the information used any different to that used in the annual and half-yearly assessment for the purpose of preparing financial statements?

Central to the business model of many banks is the concept of maturity transformation, where banks borrow short-term and lend long-term to the wider economy. This necessarily leads to liquidity risk, which needs to be managed through a detailed risk management framework. Standard Chartered monitors its liquidity position on a daily, even intra-day, basis to ensure that liabilities can be met when they fall due during normal and stressed conditions. The behaviour of liabilities is critical in the assessment of liquidity risk.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound and aligned to our strategy.

We have a detailed liquidity governance and management framework. The Group Asset and Liability Committee (GALCO) is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee (LMC) receives authority from the GALCO and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity in each country is managed by the Country Asset and Liability Committee (ALCO) within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and practices and local regulatory requirements. Group Market Risk (GMR) and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

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We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events can impact us adversely, thereby affecting our ability to fulfil our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the intended maturity date. To mitigate these uncertainties, our customer deposit base is diversified by type and maturity. In addition we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Our liquidity management framework assesses the adequacy of the liquidity of the Group and its constituent parts on an ongoing basis and supports the annual and half yearly assessments undertaken as part of the preparation of the financial statements. The ongoing analysis of the Group's liquidity position is detailed and comprehensive, and reviewed by the Board and other members of senior management on a regular basis, e.g. at monthly meetings of GALCO and LMC.

Policies and procedures

Due to the diversified nature of our business, our policy is that liquidity is more effectively managed locally, in-country. Each ALCO is responsible for ensuring that the country is self-sufficient, able to meet all its obligations to make payments as they fall due, and operates within the local regulations and liquidity limits set for the country.

Our liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The mismatch in local and foreign currency behavioural cash flows.
- The level of wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations.
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments.
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits.
- The amount of medium-term funding to support the asset portfolio.
- The amount of local currency funding sourced from foreign currency sources.

In addition, we prescribe a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario. All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by GMR and Finance. Limit excesses are escalated and approved under a delegated authority structure and reviewed by the ALCO. Excesses are also reported monthly to the LMC and GALCO, which provide further oversight.

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Regular reports to the ALCO include:

- Information on the concentration and profile of debt maturities.
- Depositor concentration report to monitor reliance on large individual depositors.

We have significant levels of marketable securities, including government securities, which can be realised, repo'd or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by Group and within each country, and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

Primary sources of funding

A substantial portion of our assets is funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The ALCO in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. The ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in the stable funding base. We maintain access to the interbank wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities.

Q8: To what extent and how do directors assess the viability of a company over the course of its natural business cycle?

Our business planning and strategy setting processes include short-term and medium-term projections as well as scenario analyses to assess the impact of significant variances in our key assumptions and to ensure compliance with the Group's risk appetite. Our business plans and risk assessments are regularly updated and overseen by the Board, key committees and other members of senior management to ensure the long-term viability of the organisation's businesses. The Board reviews and approves the Bank's strategy and medium-term projections annually including the impact of severe stress scenarios. We believe that it is critical to have a clear strategic focus, underpinned by a conservative and disciplined approach to risk, capital and liquidity.

We run regular stress tests to identify the impact of severe, adverse scenarios on our business model and plans. Our Board Risk Committee and Group Risk Committee are responsible for assessing the implications of our stress analyses and for ensuring that suitable early alert mechanisms and management mitigation actions are in place to deal with the types of events assessed in our analyses. The results of the Internal Capital Adequacy Assessment Process and the Individual Liquidity Adequacy Assessment are reviewed by the Board Risk Committee and other senior level committees. The FSA, Bank of England and other oversight bodies review our business plans and stress results

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and challenge the robustness of our methodologies, assumptions and conclusions, which also provides valuable insights to the directors on the viability of the Group. We also run reverse stress tests which examine the sustainability of our business model and the types of adverse scenarios that could compromise its viability.

Q9: The current model of disclosure identifies three categories of company. What sort of behaviours does this model drive? Is there a different model that might be useful? Would more guidance on the application of the current model be helpful?

The current model of disclosure included in the Guidance for Directors of UK Companies differentiates between three categories of company operating in various states of uncertainty and their respective going concern status. This model should help to encourage firms to identify and manage material uncertainties and enable them to run themselves on a going concern basis. We are not convinced that companies with material uncertainties should be run as going concerns unless there are viable management actions that could be undertaken should such uncertainties crystallise, so the viability of the middle category in the model which covers companies with material uncertainties which are able to use the going concern basis of accounting in preparing their financial statements seems questionable, despite the requirement for additional disclosures. We do not have suggestions for an alternative model, but would welcome more guidance on the types of issues and events to which companies should be alert, perhaps on an industry and thematic basis. It is also important for more guidance to be provided on materiality, particularly on a qualitative basis where there is greater scope for subjectivity.

Q10: In your experience, what issues have resulted in a heightened focus on the assessment of going concern? What was the nature of the risks that gave rise to these circumstances? Had these risks been identified in advance, and if so, how?

The evolving bank regulations have resulted in a heightened focus on the assessment of going concern. The Basel Committee has introduced the concept of Going Concern Capital ("Going CC") which absorbs losses while the business remains a going concern and Gone Concern Capital ("Gone CC") that absorbs losses at the point of non-viability. Non-equity Going CC requires loss absorption triggers, which we believe to be problematic. There are several proposed qualifying requirements for Gone CC, which can be met either through the terms and conditions of the capital instrument or as a function of the prevailing statutory framework. To date, there has been not been any issuance of Gone CC within the European Union whilst concerns about trigger mechanisms, marketability issues and other practical considerations are resolved.

The definition of non-viability is intended to capture the point at which significant government intervention in the form of equity infusion would become necessary unless the loss absorption features of Gone CC were triggered (and would cease to be necessary if they were so triggered). There are unlikely to be pre-specified business measures or metrics for this since banks become non-viable for many reasons, principal

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among which is a catastrophic loss of confidence from customers and depositors. The triggering of non-viability may be at regulatory discretion and this could be contentious to investors since it will advance the point at which they suffer losses, albeit that the value of the equity base is not then fully extinguished. There is a risk that the basis for this assessment does not align fully with the requirements in the Going Concern Guidance for Directors of UK companies 2009, given that they would be undertaken by regulators intent on limiting the impact of a bank's failure on the financial system and wider economy. The perspective of a regulator in assessing going concern will therefore be quite different to that of a bank's board, particularly in times of systemic stress.

There has been much debate about the use of contingent convertible capital instruments (CoCos) by the banking industry over the past few years. It has been suggested that such debt instruments, which would convert to equity after a trigger event, could be used to boost a bank's equity capital position in times of stress. We believe that any potential benefits that may arise from the use of CoCos would be outweighed by increased risks to financial stability. The triggering of a CoCo's conversion to equity would send a negative signal to the market which could lead to a liquidity run on the bank and contagion across the industry. It should also be noted that in times of distress, such instruments may lead to erosion in the market's confidence in a bank's viability and contribute to material uncertainty in a firm's going concern assessment. We are strongly against CoCos being mandated for the banking industry.

There could also be anomalous situations for companies that, notwithstanding the foregoing, have received government support that they will have been gone concerns to the extent the gone concern capital has been triggered but they may subsequently be operating as going concerns.

The auditor's approach to going concern and liquidity risk

Q11: How does the auditor approach the assessment of going concern and liquidity risk? To what extent does this involve the testing of the company's processes and what other work is carried out? Is there any specific reporting on the work done by the auditor on going concern and liquidity risk to Audit Committees? Does the assessment of going concern involve different processes in certain industry sectors? Are there different processes used where there is overseas reporting in addition to UK reporting?

In the context of going concern, the auditor reviews the processes in place that support the directors' going concern conclusions, together with discussions with the senior management team. In general, for the annual assessment of going concern, they do not undertake detailed audit procedures in testing the company's processes, and no specific reporting is made to the Audit Committee in respect of the work done, other than to support the fact that the financial statements are free from material misstatement. It is likely that the assessment of going concern will differ across industry sectors, especially where sectors are highly regulated and therefore subject to much more rigorous external oversight. In addition, going concern processes are likely to be more extensive within

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entities that have a concentration of risks, for example, reliance on a particular tranche of refinancing, or exposure to one or two key customers. The auditor's approach to liquidity risk is to review the relevant statements and metrics disclosed in the Risk Review of the annual report and accounts and other commentary made on liquidity.

Feedback on the Guidance for Directors of UK Companies in respect of going concern and liquidity risk

Q12: Do you believe that amendments to the Guidance for Directors of UK Companies in respect of going concern and liquidity risk would be helpful? For example:

- **Guidance for directors on disclosures does not specify the language to be used, whereas auditors use more standardised wording. Is this helpful?**
- **Is there a need for a clear boundary between the three types of company?**

More guidance would be helpful, in particular setting out the principles to be adopted and providing examples.

We are not convinced that there can be clear boundaries between the three types of company, particularly between types 2 and 3, but it is important to limit the potential for overlaps.

Q13: Are there any other views that you would like the Panel of Inquiry to take into account?

The scale of regulatory change being faced by the banking industry is unprecedented and will increase the resilience of the industry and individual firms substantially. The cumulative impact of all of these regulatory changes has not been fully assessed and it is critical that such an analysis is completed. Much has been achieved already, e.g. UK banks have increased their equity capital levels significantly since the start of the crisis and liquidity standards have been enhanced through the implementation new regulations. Many of the new regulations are providing the tools and mechanisms to assess the ongoing viability of banks and their ability to manage liquidity risk effectively. It is important that the recommendations made by the Panel of Inquiry consider the significant changes being made in the banking industry and are not implemented before the full effects of existing regulatory changes have been determined. Otherwise, there is a risk of unintended consequences on the industry and the wider economy.

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