Standard Life

Lord Blackwell

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Dear Sir

Sharman Inquiry – Request for Evidence from Lord Blackwell

Thank you for your letter of 31 May requesting my input to the Inquiry led by Lord Sharman. The attached answers reflect the views of Standard Life plc where I am a Director and Chair of the Risk & Capital Committee. The attached response also reflects the views of the Chair of the Audit Committee as many of the matters considered fall under the remit of the Audit Committee rather than the Risk & Capital Committee.

I have not provided detailed responses in relation to the first 4 questions regarding transparency of going concern and liquidity risk. Guy Jubb of Standard Life Investments will be engaging directly with the FRC to provide input from an investment management perspective. From the perspective of a corporate entity subject to FRC reporting requirements it will be very important to ensure that a balance is struck between the needs of investors and the legitimate needs to treat certain information as commercially sensitive. It will be particularly important to ensure that information is not required to be presented in a partial or misleading way that might precipitate an unwarranted loss of confidence in a financial institution or make it difficult to take appropriate and timely mitigating actions.

I hope you find our response helpful.

Yours faithfully

Lord Blackwell

Standard Life plc

Response to Sharman Inquiry on Going Concern & Liquidity Risks

Company assessment of going concern and liquidity risk

5.
The management of the Group provides a variety of information to the Directors in order that they can make a full assessment of going concern when preparing the financial statements. This information comes through the following channels:

- The business planning and reforecasting process; and
- The enterprise risk management framework and related reporting.

The business planning and reforecasting process
The business plan provides the Directors with key capital and cash projections over the planning horizon. This business plan is reforecast on a quarterly basis to ensure that the plan stays refreshed, taking into account actual experience, changes to the internal operating environment & changes in the external environment (including market and regulatory changes).

The business plan is considered both under the base case scenario and for a variety of different economic scenarios which provides information of the resilience of the plan to changes in key economic assumptions.

The company's capital position is subject to univariate and combined stress tests to provide sensitivity data for a variety of different financial risk events.

In addition, various other risks to the business plan are considered. These are considered under the following categories:

- External events – includes economic risks & regulatory risks
- Strategy specific risks
- Execution risks – includes operational risks

Consideration of capital and liquidity risks is an integral part of the stewardship of the company. The company has Capital Management departments at both business unit level and at a group level. These departments are responsible for the management of capital and liquid resources and the management of the associated risks. Monthly reporting of capital and cash is undertaken and compared against plan.

Enterprise risk management framework
Key risks and uncertainties are actively managed in line with the Enterprise Risk Management (ERM) framework. The ERM framework enables risks to the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. The ERM framework is operated under the executive oversight of the Enterprise Risk Management Committee. Non-executive challenge is provided by the Risk and Capital Committee.

The role of the Risk and Capital Committee is to provide oversight and challenge of and advice to the Board on:

- the Group's current risk appetite, tolerance and strategy, material risk exposures and future risk strategy and their impact on capital;
- the structure of the Group's Enterprise Risk Management framework and its suitability to react to forward-looking issues and the changing nature of risks;
- material actuarial matters affecting the Group, and
- material risk and capital matters affecting the Heritage With-Profits Fund.

As part of the ERM framework, the Group has a policy framework which supports the Group's corporate purpose by providing a consistent approach to managing the key risks faced by the Group. The Group has a specific liquidity and capital management policy as part of the policy framework.

In addition to the normal monthly reporting undertaken, the Enterprise Risk Management Committee and the Risk and Capital Committee receives an annual assessment of liquidity risk across the Group. This includes both a qualitative and quantitative assessment of liquidity risk. Standard Life uses the Chief Risk Officer Forum best practice for liquidity risk management to assist in its approach to liquidity risk management. These principles provide a useful framework for the assessment and management of liquidity risk.

The Audit and Compliance Committee receives a going concern assessment to support the Directors decision to adopt the going concern basis in the preparation of the annual report and accounts. This assessment is made with reference to the Group's current financial position, the business plan projections and the robust risk management framework that the Group operates.

6.
In raising both debt and equity capital, the financial strength of a company is considered with reference to historic information contained in the annual report and accounts as well as any additional regulatory reporting. As part of the capital raising process, the Directors may make certain forward looking statements about the prospects of the company but these are likely to be less detailed than the business plan information that the Directors will review and use to support the going concern statement. A fresh equity issue will require a working capital statement to the effect that taking into account existing facilities and the net proceeds of the rights issue the company will have sufficient working capital for the coming 12 months. The base information required to make a forward looking statement such as this should be entirely consistent with the supporting information that the Directors use for the going concern review i.e. the company business plan with associated scenarios and stresses (although, depending on the purpose of the equity issue, certain overlays may be required on top of the core business plan).

7.
Cashflow forecasting is undertaken at an operational level (daily for material entities) with the objectives of minimising overdraft charges and maximising return on surplus cash held in bank accounts.

Longer term strategic cashflow forecasts are prepared as part of the business planning process and these are on a monthly basis for the first year, extending to annually over the remaining planning horizon. These strategic forecasts are updated quarterly as part of a formal reforecasting. Actual cash balances are monitored against the plan/reforecast and variances investigated.

The strategic cashflow forecasting information that is used is exactly the same information that is used for the going concern review.

8.
As referenced in point 7 above, the business plan process provides the Directors with information they require to assess the ongoing viability of the Group. In addition to cashflow information the business plan financial information provides the Directors with projections of profitability (and the component drivers of profitability) and capital strength. This information is reforecast on a quarterly basis.

9.
We do not consider that making changes to the categorisation or the level of guidance provided would make a material difference to the going concern review process. Rather it is the robustness of the challenge to a company's strategy and business plans and the understanding of the risks inherent in those plans that provides qualitative assessment of the going concern basis.

10.
A number of issues have led to an increase in focus on going concern:

The recent financial crisis has led to renewed focus on specific risks. These are risks that are already assessed as part of the Group's ERM framework such as the ability to survive a significant credit default event, illiquidity of major asset classes (property, mortgage backed securities etc), ability to raise fresh capital/finance if required.

The insurance industry is also going through significant changes in the regulatory environment (Solvency II & Retail Distribution Review) and companies must continue to reassess their strategies and therefore business plans under this changing landscape.

11.

In accordance with the Listing Rules, the Combined Code and IFRS requirements, the Directors are required to make a statement in the Annual Report and Accounts in respect of the Company's status as a going concern. In order to make the statement, the Directors make appropriate enquiries and management prepare certain information which supports the Directors in making this statement.

The information provided includes:

1. Statements of the Group's financial position including its IFRS financial statements and its regulatory capital statements. These are subject to a full audit by our external auditors
2. Our group strategy and business plans which include forecast capital and cash positions, and liquidity and funding plans. These plans are fully disclosed to our external auditors who review them to ensure consistency and alignment to the other audit work they carry out.
3. Details of the group's funding facilities which are also reviewed by our external auditors.

The details of the Going Concern position are dealt with by the Audit Committee with our external auditors in attendance. The external auditors are unrestricted in any comments they may wish to make in terms of the management information the Directors are provided with in support of the statement.

As a company which is subject to close and detailed regulation by the FSA, there are also detailed regulatory submissions including periodic stress testing exercises undertaken to ensure the company's risk exposures are adequately reported and its plans are robust.

12.

We believe that the Guidance issued in October 2009 is comprehensive and provides sufficient support for Directors of listed companies to consider fully going concern and liquidity risk issues and to report to shareholders on them. We believe that it is appropriate to allow Directors flexibility as regards the language to be used as this allows them, guided by their discussions with internal finance experts and the Company's external auditors, to disclose wording which is appropriate to the particular circumstances of the entity. Therefore, we do not consider that it would be helpful to introduce standardised wording. To keep the Guidance practical, we believe that it would be appropriate to amend it if, for example, there were any changes to the relevant Listing Rules, but we believe that the principles based approach means that the current document will continue to remain relevant into the future.