

Gail Gilkes

From: John Coombe <john.coombe@hrgworldwide.com>
Sent: 01 July 2011 14:35
To: Sharman Secretariat
Cc: Russell Picot; david.quest@hsbc.com; Rona.fairhead@ft.com
Subject: Sharman Inquiry

Dear Secretary,

You wrote to Rona Fairhead on 2nd June asking for her comments as Audit Committee Chair of HSBC. I have been fulfilling this role for approaching a year and am replying to your request. You ask for responses based on experience in banking and elsewhere.

HSBC is responding to the Inquiry directly. I have seen their submission and support all the points it makes.

As far as other experience is concerned I have a few comments.

1. The notion of capital robustness is viewed in the corporate I have been involved with in terms of the balance between share capital and reserves on the one hand and debt on the other. Different sectors have different views on the appropriate balance but generally investors receive sufficient information about both to form a view on robustness and, more importantly, adequacy.

Disclosure requirements on debt expiry dates combined with the FRC's requirement for at least 12 months' facility life post Accounts signing to be in place when calculating availability for "going concern" assessments ensure that proper judgment is exercised.

This 12 month requirement has unfortunately had the side effect of reducing most facility lives by one year as they are renegotiated earlier than otherwise necessary. In normal circumstances this would not matter particularly but at a time when lending margins are changing from a historic 0.5 basis points to 2.5 basis points plus a renegotiation fee, this has added considerably to the costs of companies at a time when such costs have been hard to bear.

2. Liquidity risks in non financial corporate are covered by the timing disclosures referred to above accompanied, if necessary, by reference to material financial commitments, (e.g. lease commitments), which will impact on the availability of funds. No further disclosure is necessary.

3. Stress testing as used by banks is little used by non financial corporates in my experience. However I think there are lessons to be learned from the benefits that can be gained from such exercises and this may be usefully explored. It is used to some extent in the risk mapping process when discussing mitigation but this is still different to the way banks approach it.

4. The going concern assessment is, in my experience, a useful summary of current performance against budget, longer term plans, funding availability and an external view of the market and the corporate's place in the business cycle where necessary. A paper covering these matters is considered by the Audit Committee in depth annually and updated 6 monthly and a recommendation is made to the Board. This seems to be a satisfactory process. Whether this needs to be done more often will depend on the state of the company's performance and finances and little additional guidance is needed for a well run company.

5. My final comment relates to the three categories of company. Being categorized in the second section where material uncertainties exist tends to create a self fulfilling slide into the third category. This is not easy to resolve and it would be interesting to know if any research has been done on this issue since the additional category was