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Dear Marek

Implementing the Recommendations of the Sharman Panel

We welcome the opportunity to provide comments on *Implementing the Recommendations of the Sharman Panel: Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland).*

HSBC is one of the largest banking and financial services organisations in the world, with assets of US$2,693 billion at 31 December 2012. Headquartered in London, HSBC serves customers worldwide in 81 countries and territories in six geographical regions. HSBC provides a broad range of financial services and products organised through four global businesses, Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

HSBC supports the highest standards in financial reporting and transparency, including risk reporting. We have been heavily involved in helping to establish and implementing the recommendations of the Enhanced Disclosure Task Force which include disclosures to allow users to better understand liquidity, funding and capital adequacy risks as well as top and emerging risks. We agree that financial reporting should provide sufficient information for users to understand these risks and be able to challenge management about the sustainabilty of the business model.

However, we do not support the approach taken by the Financial Reporting Council (FRC) to implement the Sharman Panel recommendations which, in our view, risk creating confusion between the going concern assessment and disclosures in support of the basis of preparation of the financial statements and the broader objectives of risk management and reporting. We suggest that the FRC should reconsider its approach. We also recommend that the guidance, which we find unclear, should be redrafted and re-exposed for comment.

While there is a strong relationship between assessing whether the going concern basis of preparation of the financial statements is appropriate and the on-going business planning and risk management processes, we do not support the explicit assessment and disclosure of information about the business model and risks through the lens of the going concern assumption. Terminology that tries to differentiate between the going concern basis of preparation of financial statements and the company's ability to continue in the long term is likely to create confusion for the users of financial information. Risk reporting should

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properly focus on liquidity, funding, capital and other risks and business and other developments that are necessary to understand the longer term viability of the business without conflating these disclosures with the going concern assessment.

Mixing risk reporting with the going concern assessment also seems unlikely to meet the recommendation for the clarification to be in line with international consensus. We believe that the going concern assessment and disclosures should remain in line with international standards, including that the primary focus of the assessment be limited to a period of one year. The future is inherently uncertain and it seems unlikely that any directors will be able to obtain a high level of confidence of what may happen over longer periods such as the economic cycle, the length of which cannot be predicted with any certainty. The wide reporting of such uncertainties in the context of going concern will distort UK reporting compared to international reporting and make it more difficult for users to understand and compare the broader risk reporting.

We agree that the supplementary guidance for banks that central bank support for a solvent and viable bank does not necessarily constitute a material uncertainty is responsive to the recommendations of the Sharman Panel. However, it appears that this conclusion may be inconsistent with the rest of the guidance. It may be that the rest of the guidance should be clarified to indicate in what other circumstances materiality uncertainties do not exist, for example whether other entities can assume that funding is generally granted on the assumption that the entity is solvent.

Lastly, even if the guidance was clear enough to be successfully implemented as drafted, which we do not believe is the case, the proposed timetable for its implementation is not achievable. Financial years commencing on or after 1 October 2012 are already in progress and it does not seem reasonable to expect companies to have the systems and processes in place to revise the information used to make their going concern assessments and amend risk disclosures as necessary to such a short timetable before their next interim or annual reporting date.

Yours sincerely

Russell Picot