

12th August 2013

Inquiry Manager
Audit Market Investigation
Competition Commission
Victoria House
Southampton Row
LONDON
WC1B 4AD

Dear Sir/Madam

STATUTORY AUDIT SERVICES MARKET INVESTIGATION

We are writing in response to the invitation to comment in the notice of Summary of Provisional Decision on Remedies findings published on 22 July 2013 and the Provisional Decision on Remedies published on 24 July 2013.

Our specific comments on the individual remedies are set out in the Annex.

Our key concern is around the mandatory tendering of audits every five years. It should be noted that we have commenced the tender for our external audit. We are currently part way through this process and base some of our responses from our current experience. We do not believe that mandatory tendering every five years will be necessary to the benefit of our shareholders. We believe that the Audit Committee in the company is best placed to ensure the ongoing quality and independence of the external auditor.

I hope that you find our submission/response to be of use in your deliberations. Please do not hesitate to contact us if you would like to discuss our comments on the individual remedies.

Yours faithfully



Rudy Markham

Independent Non Executive Director and Chairman of the Audit Committee

Standard Chartered PLC

1 Basinghall Avenue
London EC2V 5DD
www.standardchartered.com

Registered Office at 1 Basinghall Avenue London EC2V 5DD
Registered England 966425

Tel +44 (0)20 7885 8888

Remedy 1: Mandatory Auditor Tendering Rotation

We do not support the proposal to require mandatory tendering of the external audit every five years. In our opinion, the UK Corporate Governance Code provision of requiring tendering every 10 years on a “comply or explain” basis is appropriate.

We believe the decision to tender is primarily that of the shareholder and the Audit Committee. At Standard Chartered, on an annual basis, Group Internal Audit and Finance will jointly assess the performance of the external auditors by surveying all our country Chief Executive Officers, Chief Financial Officers and local Internal Audit Heads. This assessment is tabled at the Audit Committee to support the proposal regarding the reappointment of the external auditors for the following year.

Our experience to date of the tendering process is that it is both time consuming and costly for both the bank and the external audit firms involved in the tender. Increasing the frequency of tendering will increase the recurrence of these costs. The time cost to senior management is significant and there are direct financial costs incurred as it has been necessary for the bank to fly senior management to various locations to meet with the candidate firms. Similarly, the external audit firms key audit partners have travelled to primary locations as part of the tendering process. In addition to anticipating the actual costs of tendering being passed on indirectly by the external audit firms, we also expect the tender process will be used by the external auditor as an opportunity to raise the underlying fees. We expect our current audit fee to rise following our current tender.

Based on the research we performed as part of our current audit tender process, the firms below the “Big Four” do not currently have the geographical reach, size or experience necessary to provide us with external audit services. We do not believe mandatory tendering will necessarily result in the smaller external audit firms increasing their market share of the global FTSE 350 companies. It may also be that mandatory tendering actually results in a larger market share across the FTSE 350 companies for the Big Four as they get the opportunity to demonstrate their extensive skills and experience to smaller companies via the mandatory tendering process.

A factor that is specific to the banking sector relates to the financing of external audit firms, their partners, employees and families. In order to tender, the external audit firm needs to assess its own financing arrangements to ensure any independence conflicts can be unwound before any appointment as external auditor. In our own tender, one external audit firm declined to tender on the basis that unwinding its own existing global financing arrangements with the bank would be too costly and difficult due a lack of alternate banks in certain geographies. Accordingly, more regular tendering in the banking sector may not increase competition but may also require external audit firms to restrict their financing to riskier shorter term arrangements only.

In light of the above and given the increased risks to the quality and effectiveness of the audit in its initial years following any change in auditor, we believe that mandatory tendering once every 10 years is an appropriate maximum timeframe to take stock and demonstrably consider the alternates available.

Remedy 2: Audit Quality Review

We have no objection to the proposed increased frequency for the Financial Reporting Council's Audit Quality Reviews (“AQR”) for the FTSE 350 firms. We have used the AQR reviews as part of our due diligence in our current tendering process and increasing the frequency would provide shareholders with more timely information on which to factor in to future decisions regarding the appointment or removal of the external auditors.

Remedy 3: Auditor Clauses in Loan Agreements

We are supportive in general of the remedy to prohibit the use of specific lists or categories of external auditor. We also agree it may be appropriate, in certain circumstances such as due to specific expertise, for a lender to require a specific auditor as part of its negotiations.

The internal templates that we generally use, as a basis to agree documentation for the majority of our bilateral lending arrangements, do not include a requirement that a borrower's auditors are one of the Big Four firms, however there is a possibility that a small minority of transactions documented on the

basis of those templates have been amended to include such a provision. The externally documented (generally but not exclusively syndicated) arrangements to which we are a party may contain such a provision (or a provision for consent to change auditors that may 'de facto' operate in a similar manner). Naturally this is more likely the case where industry wide templates that form the starting point of the syndicated documentation process contain such a provision. We have not historically monitored the inclusion of such a clause. It should be noted that the vast majority of our clients operate outside of the UK and their footprint means that there may be a very limited range of suitably qualified firms that are geographically aligned with sufficient depth and expertise to provide the requisite level of service. In that regard, it is vital for our credit and other processes that we have confidence in an accounting firm's depth and expertise to opine on audited accounts of our clients.

Remedy 4: Enhanced Shareholder Engagement

We are supportive of enhancing the engagement of shareholders.

We believe our Audit Committee, comprising of non-executive directors, already provides sufficient coverage in this area and is best placed to debate issues impacting the financial statements. A strong Audit Committee is the right forum to determine that the content of the annual report and accounts as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy. The Chairman of our Audit Committee attends the Annual General Meeting and answers any questions, through the Chairman of the Board, on the Audit Committee's activities and its responsibilities, including those regarding the assessment of the external auditor.

Remedy 5: Strengthening the Accountability of the External Auditor

The Standard Chartered Audit Committee and Audit Committee Chair meet regularly with the external auditors, Group Internal Audit team and executive management as part of their ongoing responsibilities. We believe this level of interaction is sufficient for the Audit Committee to gain the necessary understanding of the bank, its activities and issues to discharge its responsibilities to the shareholder. However, in our opinion executive management are better placed to provide shareholder benefit in a number of the matters raised by the proposed remedy:

- The initial negotiation of audit fees and the scope of audit work are better performed by senior financial management as the Audit Committee and Audit Committee Chair are not in a position to have the detailed knowledge and understanding necessary of the external auditors' activities to drive these negotiations for the maximum benefit of the shareholder.
- Whilst we agree that the Audit Committee/Audit Committee Chair should authorise the award of non-audit services to the external auditor, for efficiency purposes, we believe that this decision should remain with management below an agreed threshold amount.
- We believe the non-executive Audit Committee is the appropriate forum for the external auditor to raise material issues that have arisen during the course of the audit and we would interpret "as soon as practicable" as being the next scheduled meeting. The external auditor should be given sufficient time to fully investigate and factually verify its material observations with executive management before presenting them to the Audit Committee.

We concur with the proposal that it should be the role of the Audit Committee to require the replacement of an External Audit Partner.

Remedy 6: Extended Reporting Requirements

We concur that it would be appropriate for the Audit Committee to include in its ongoing assessment of the external auditor, the results of any Audit Quality Team review on the audit of the company in that period and how the Audit Committee and the external auditor are responding to those changes.

Remedy 7: Competition Objective for the FRC

We have no specific comment regarding this remedy to amend the FRC articles of association.