

Provisional Decision on Remedies submission (an Investor)

13 August 2013

Dear Sir/Madam

UK Competition Commission: STATUTORY AUDIT SERVICES MARKET INVESTIGATION Summary of provisional decision on remedies (22 July 2013)

This letter is in response to the Commission's provisional decision on remedies and its underlying analysis, as contained in the summary noted above.

Paragraph 4(a) of the July 2013 provisional report includes a proposal that "FTSE 350 companies should put their statutory audit engagement out to tender at least every five years. Companies may defer this obligation by up to two years if there are exceptional circumstances." No definition of exceptional circumstances is provided.

In 2012 the Netherlands government enacted legislation that requires mandatory audit firm rotation to a firm other than the current auditor every eight years, effective for financial years starting on or after 1 January 2016. Businesses that seek to comply with corporate governance standards applicable in the United Kingdom and the Netherlands would be in an unsatisfactory position in the event that the Commission's draft proposals were adopted, as a mandatory rotation would be required every eight years, and a tender every five years. It is difficult to believe that the Commission had this consequence in mind when considering a period of five years for mandatory tendering of audits.

Paragraph 7 of the 22 July report included the comment, "We consider it to be a matter of judgment as to the appropriate interval between tender processes. We note the Financial Reporting Council's (FRC's) judgment that five years was the appropriate interval for rotation of an Audit Engagement Partner (AEP) to ensure their objectivity and independence and saw no grounds to alter it. We were persuaded of the benefits of aligning the interval between tender processes with AEP rotation, as this provides a break in the audit relationship at which the AC can make an informed choice of audit partner, and if it wants, switch audit firm without incurring more disruption than is necessary, and would limit the advantage that the incumbent firm derives from being able to offer an AEP with pre-existing experience of the company. This led us to choose between periods of five or ten years."

With this comment in mind, and taking recognition of the points raised above, I would suggest that the Commission should endorse the recently introduced requirement for UK-listed companies to exercise judgment by putting their statutory audit engagement out to tender at least every ten years, on a comply or explain basis, or at least accommodate companies falling under multiple jurisdictions and seeking to apply potentially conflicting national requirements.

I hope that the Commission can seek to better align its draft proposals with developments in other major equity markets, and accept the suggested amendment for inclusion in its final report.