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Sent by email to: audconsult@bis.gsi.gov.uk

**Response by GE UK to the Department for Business Innovation
and Skills'
Consultation on Audit Exemptions and Change of Accounting
Framework**

Dear Mr Rottenberg,

Introduction

GE appreciates the opportunity to comment on possible changes to the draft in the Consultation on Audit Exemptions and Change of Accounting Framework issued by the Department of Business, Innovation and Skills.

GE is a global company with a strong commitment to the UK, where we have had operations since the 1930s. Since 2000, we have invested over £14 billion in building our UK-based businesses, which currently employ over 18,000 people within over 500 Legal Entities across 40 hi-tech industrial manufacturing, R&D and service sites, with over 60 sites in all. Today, all of our businesses are represented in the UK. Our manufacturing and research operations in the UK are very wide ranging and include energy, oil & gas, aviation systems and avionics, industrial systems and healthcare diagnostics.

These are at the cutting edge of low carbon, high tech, digital engineering, manufacturing and design, and offer pragmatic solutions to many of the challenges facing the UK today. GE Capital has its EMEA Headquarters in London and the Global Headquarters of GE Healthcare are in Amersham, Bucks.

Overall, we support the view that audit requirements in the UK do not allow as much flexibility to companies as currently available under EU requirements, as outlined in **Question 1**, resulting in market inequality. We therefore applaud the proposals to remove this “gold plating” approach from the requirements. We also support the extension of the definition of small company if it meets two out of the three criteria, as proposed in **Question 3**. We do not feel this will cause a significant deterioration of the quality of financial information we prepare. There will still be a need for consolidation of information at a group level.

In this response, we comment broadly on the questions posed that are relevant to our business, and put forward our suggestions that we believe support the Government’s objective of making the UK one of the best places in Europe to start, finance and grow a business.

GE takes its responsibilities towards corporate governance very seriously and has in place a variety of checks and controls to ensure that each of our affiliates complies with robust financial controls and has in place appropriate governance.

The company audit represents one part of the overall approach to corporate governance, and whilst it gives an external perspective that remains invaluable to our stakeholders, we share the view that there are inefficiencies within the system that could be remedied by the removal of the statutory requirement for both subsidiary and small company audits.

In the UK, we have a large and complex company structure that lends itself to individual company audit as well as consolidated group audit. A risk-based management approach focusing on the group would more accurately reflect how our business is managed and would facilitate a more effective use of resources than what is currently employed to comply with company law.

We welcome the Governments proposals, firstly to simplify the audit exemption for small companies, and secondly to permit audit exemption for subsidiaries. These proposals, as currently outlined, are focused on UK subsidiaries with parents residing within the EU.

Whilst this may promote growth in the small business sector, we believe that it puts groups whose ultimate parent company resides outside the EU at a disadvantage compared with local businesses, which creates an uneven playing field for small company investment from outside the EU.

Audit costs can be significant for smaller businesses and therefore any proposal to reduce costs for one regional group may cause an adverse impact on investment in smaller businesses from other regions. As a leading investor in businesses domiciled in the UK, we would urge the Government to examine this proposal carefully to avoid discouraging companies like ourselves from continuing to invest in the UK.

The current rules in force within the EU, augmented by the UK companies Act 2006 extend the consolidation exemptions to include groups who's accounts are prepared under "equivalent" GAAPs, already create a level playing field under the seventh directive, giving "equivalence" to accounts audited under GAAP standards.

The definition of "equivalence" in GAAP terms, as outlined in the current "Urgent Issues Tax Force No. 43" and the EU 7th directive is already an accepted accounting principle in the UK. Subsidiaries of U.S. companies are not required to consolidate their groups in the UK, on the basis that U.S GAAP is deemed equivalent under the 7th directive.

The new proposals outlined in this consultation would create a new inconsistency in small company audits if the conditions a subsidiary needs to fulfil are not amended to widen the parent to include groups consolidated under "equivalent" GAAPs.

Our responses to specific questions on the proposal follow:

Conditions a Subsidiary needs to fulfil

There are a number of conditions outlined within the proposals that a subsidiary must fulfil in order to take advantage of the exemption from mandatory statutory audit. There are 7 conditions set out in the document in para 5 of the Executive Summary, labelled a) through g). We offer a response on 4 of these conditions, as detailed in the following paragraphs.

Subsidiary's Parent Company registration

The first condition requires the subsidiary's parent company to be registered in the EU. We believe that this requirement is too narrow a focus and removes a large number of small subsidiaries from the scope of this initiative.

We believe that there is a strong argument in favour of removing this requirement from the scope of the legislation, as whilst the intention is to level the playing field across the EU, we feel the government should use this opportunity to widen the scope to bring in additional subsidiaries.

We would also like to see included in the final document some rules to the effect that exemptions should not be limited to those entities which are legally classified as subsidiaries but for those who are consolidated by a parent under equivalent GAAP. For example, in the case of a joint venture company where one partner has or is deemed to have control, and that control changes over time between an EU and non-EU parent, the exemption rule for the subsidiary could change on a regular basis, unless the EU parent rule is reviewed and amended.

Response to Questions 18 through 20: Requirements of the Parent Guarantee

Another important condition outlined within the Consultation paper is that of the requirement for a Parent Guarantee. Whilst we agree with the Government's desire to reduce risk and ensure a level playing field with the EU, we feel that the approach outlined here will inhibit Parents from issuing a Guarantee in this form, which in turn will reduce the effectiveness of the proposals as a whole.

In response to **Question 20**, there are various alternative mechanisms that we feel would satisfy the spirit of the Parent Guarantee. In this document we outline an alternative approach that suggests the use of a non-legally binding letter of support.

With this approach, a standard Letter of Support, which outlines the Parent's intention to financially support the subsidiary through the foreseeable future, with local country changes only where regulation necessitates a deviation, could be put in place in consultation with the major audit firms agreement.

This approach would allow businesses a substantial cost saving, as it does not require any recurring legal expense to ascertain the nature of the potential guarantee and the risks associated with that approach. As cost may be a significant factor for prospective companies looking to take the audit exemption, this would be a reasonable approach to take.

The Subsidiary must be included in the consolidated accounts drawn

Where a subsidiary is jointly owned in a JV structure, it is possible for either parent to consolidate. Where the ownership from a consolidation viewpoint shifts, it is possible that a subsidiary would be able to have the benefit of an exemption in one year and then be faced with a statutory audit the following.

The cost implications would be much higher than a normal annual audit, given audit firms would need to be engaged, build expertise and become comfortable with opening balances. This would reduce the benefit of taking the audit exemption.

Extending Article 57 by imposing additional conditions

In response to **Question 7**, we feel that Article 57, along with the conditions defining “small”, together form a balanced and pragmatic approach to determining eligibility of exemption from statutory annual audit.

In expectation that the Government would indeed continue to want to exempt Financial Services subsidiaries from eligibility, we would offer a definition that encompasses deposit taking and a banking licence rather than the wider “Financial Services” label.

A vibrant non-deposit taking sector can play an important role in maintaining the competitiveness of the UK financial services market and can offer products and services which may not be provided by established deposit taking institutions.

It is our view that such companies pose no risk of depositor loss and do not represent a systemic risk in the UK, and thus should not fail the proposed exemption criteria, by being labelled “Financial Services”.

There are already many barriers to entry for prospective “Financial Services” providers. We believe in response to **Question 8**, that there would be no material consequences of allowing Financial Services subsidiaries, using our suggested definition in para 0, to take advantage of the proposed audit exemption.

In Summary, we are supportive of the Government's initiative to reduce the burden of audit requirements for small businesses and believe it will help reduce bureaucracy and help generate additional economic growth.

However, we would urge the Government to go further and extend the statutory audit exemption to UK companies with non-EU parents.

We would be happy to discuss our suggestions further should that be of assistance to you. Please get in touch with either my colleague Michael Kamine at Michael.Kamine@ge.com or myself.

Yours sincerely,

Blathnaid Bergin

Ms Blathnaid Bergin
EMEA Pole Controller

cc Michael Boyd, Managing Director Strategic Relations, UKTI