

23 March 2015

Paul Smith  
Corporate Frameworks, Accountability and Governance  
Department of Business, Innovation and Skills  
1 Victoria Street  
London  
SW1H 0ET

### **CBI response to the BIS discussion document on the implications of the EU and wider reforms**

Dear Paul,

The CBI welcomes the opportunity to respond to the government's consultation on the details of the UK implementation of the EU audit market reform. As you will know, the CBI has been an active participant in the debate throughout the process and has been working closely with policymakers at UK and EU level to ensure that reforms seek to improve quality, independence, resilience and choice of audit.

We support the focus on high quality audits and believe that a key success factor to these reforms being introduced effectively will be to offer complete and timely clarity to companies so that their respective audit committees can begin to take the necessary steps.

We also highly welcome the government's assurances that there is no intention to gold-plate the EU reforms in the UK. In this context, we were pleased to hear that BIS and the FRC will be taking due care so that decisions are not made in isolation – we strongly encourage an outcome that is consistent across the piece with both the objective to promote high quality audits and the objective stated by HM Treasury and BIS to promote private sector growth.

With these principles in mind, we would like to make some more specific points in the following. We also annex our response to the connected FRC consultation in order to provide a full picture of our views.

#### **On the need for clarity around audit firm rotation**

On the question of audit firm rotation, we believe that the rotation periods agreed at EU level were a good outcome and welcome that BIS, the CMA, and the FRC are now closely working together and are conscious that these must now be sensibly aligned with the CMA's orders following its investigation into the UK audit market.

For businesses, the key will now be to get a full understanding of the timelines for this as soon as possible. For many audit committees, the new rules will mean that decisions need to be taken now so that their company is able to comply with the new regulations once these come into force.

We welcome that BIS has already published further supplementary information in order to provide clarity for businesses. Important questions included practicalities around the transition period and what previous tenders would meet the criteria of the new rules. Government has helpfully already clarified these points, but further questions remain.

As the implementation process continues, we would ask BIS to continue with this engaged approach so that as much further clarification and guidance can be offered to businesses ahead of the publication of the final regulations, which are currently expected for spring 2016. Given that the details of previous audit engagements vary widely across companies, supplementing guidance with several examples will be extremely useful for businesses. CBI would be happy to assist in facilitating further dialogue with corporates and investors on this matter.

**On the need to avoid duplicative outcomes**

As a general and final point we would ask BIS and the FRC to take care in their joint implementation efforts to avoid outcomes that would pose duplicate requirements on certain entities that are already subject to regulations regarding auditor independence. For example, we support the audit committee exemption available for UCITS and AIFs as these funds are subject to a well-established regulatory regime and additional specific governance requirements such as the appointment of an independent depositary.

In addition, we would support the audit committee exemption where the group audit committee is discharging the requirements that would be imposed on a PIE's own audit committee as this exemption avoids any duplication that would otherwise occur where a PIE would have to create an audit committee in addition to one that already exists at the group level.

We hope these comments are helpful and would be happy to further discuss any of the above if that would be useful.

Yours sincerely



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