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Dear Ms Kelly

TECH 03/13FSF

The Financial Reporting Council (FRC) welcomes the opportunity to comment on TECH 01/13FSF, *Exposure Draft and Interim Guidance for the Performance of Assurance Work on Benchmarks and Indices*.

We understand that a key driver for the development of this guidance is to respond to concerns that arose from the manipulation of LIBOR and EURIBOR and address matters identified by investigations into that, including in particular the Wheatley Review.

We agree with the statements in the Wheatley Review that “assurance from external auditors can play a major role in instilling public confidence and establishing credibility to LIBOR” and that “such assurance should be provided on a consistent basis and based upon a robust framework”. We acknowledge that the Wheatley Review welcomed the project announced by the ICAEW to develop guidance for providing external assurance on interest rate benchmark submissions, including LIBOR, based upon standards set by the International Auditing and Assurance Standards Board.

The Wheatley Review stressed that the creation of this guidance should be in place when banks are required to obtain external assurance. However, we have strong concerns about the timing of development of the guidance and some aspects of the process followed.

The Wheatley Review specifically recommended “that the ICAEW work with the new LIBOR administrator to ensure that their guidance informs and is consistent with the code of conduct.” Notwithstanding this, the ICAEW has gone ahead and developed guidance before the new LIBOR administrator has been put in place and preceding the development of the code of conduct and requirement to obtain external assurance. The ICAEW justifies this in the exposure draft by stating that there will be a demand for assurance preceding the appointment of the administrator and that “waiting for the appointment of the new administrator would cause unnecessary delays to the development of this guidance”.

We would not expect the new administrator to be constrained in developing the code of conduct and reporting requirements by the pre-issuance of this guidance and we are concerned that there is a risk that the guidance that has been developed may not meet the needs of the new administrator. It is also possible, depending on how the code of conduct and reporting requirements develop, that it may be determined that the work of the audit and assurance practitioners should be subject to compliance with standards rather than non-mandatory guidance. These factors could result in the guidance needing to be substantially

revised and a change in the form of reporting in a relatively short period of time, which will be unhelpful to institutions and audit and assurance practitioners that have already put processes in place on the basis of this ICAEW guidance.

We do not provide views on the detailed guidance as it is difficult to evaluate fully absent any understanding of the expectations of the new administrator. However, we note that the model for reporting is based on the premise that the directors will produce a report/schedule on which the auditor reports, although currently there are no requirements for directors to produce such reports/schedules. If directors are in due course prepared, if not compelled, to produce such reports/schedules, then we believe that there should be guidance to assist them on doing so and being clear as to their responsibilities. The ICAEW's exposure draft states that, as well as audit and assurance practitioners, the guidance is aimed at:

- Directors of companies and/or institutions which contribute input data to benchmarks or indices compilation, and
- Compilers and publishers of benchmarks and indices.

However, the guidance in the exposure draft is clearly only focussed on auditors and assurance practitioners and would not in our view provide substantive guidance to directors or compilers.

The model that is proposed in the guidance is similar to that adopted in ICAEW guidance for engagements to report on controls at service organisations. There are other models that could be explored such as, for example, reporting on compliance with the code of conduct once it has been established. These may provide more relevant assurance and we believe should be considered with the administrator, once appointed, before this project is finalised.

Yours sincerely



Nick Land

Director of the FRC and Chairman of the FRC's Audit & Assurance Council

Enquiries in relation to this letter should be directed to Marek Grabowski, Director of Audit Policy.

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About the FRC

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.