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Chris Hodge
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PMON/ac

Dear Chris,

Financial Reporting Council – Choice in the UK Audit Market Progress Report and Further Consultation

The Association of British Insurers welcomes the opportunity to contribute to the continuing efforts to promote choice in the UK audit markets. The ABI represents leading institutional investors as well as preparers of accounts in a highly complex sector. Our members therefore have a strong interest in a flourishing audit industry, which offers both choice and quality for the benefit of both users and preparers of accounts.

In general, we believe that the work done so far by the FRC and the Market Participants Group to be helpful in furthering the aim of promoting audit choice and quality in the UK market.

We continue to believe that issues of choice and quality in the audit market to be inextricably linked. The efforts that have been made to increase choice must be seen in the wider context of and in conjunction with matters such as the limiting of auditor liability and audit partner rotation. A greater choice in the audit market is not a sufficient aim in and of itself, rather all efforts that made should ultimately improve audit quality.

Changes to audit firm ownership rules

Despite the efforts that have been made already, the danger of one member of the “Big 4” leaving the audit market remains. We agree that contingency plans should be in place by both the FRC and companies to deal with this. Additionally other steps should be considered to preserve the integrity of the current market should it prove necessary. Therefore, we believe that it remains appropriate to consider the ownership structures of audit firms and particularly the opportunities for them to raise additional capital. We believe that the risks associated with changes to ownership rules are outweighed by the potential benefits. As noted in the consultation paper, safeguards already exist to preserve audit quality in the face of pressure from financial considerations, and we believe such safeguards could work adequately under different ownership structures. Such changes would not necessarily cause an immediate change in the UK market, but any changes would have the benefit that even if no existing audit firm took advantage of

new rules immediately it would allow an existing market participant, which was close to failure or collapse, to potentially be rescued by means of raising external capital.

Use of firms from more than one network

In the main we believe that any move by a company to use a firm from more than one network should be driven by desire to maintain or increase the quality of the audit. We have no objections in principle to a company electing to use a different audit firm in a subsidiary. However, any decision should be taken by the audit committee, who must be fully cognisant of the implications. Similarly any such move does not reduce the responsibility of the Group Auditor, and this must be clear to all parties. Therefore we believe the guidance the FRC will produce on the matter should be of help. On the subject on joint auditors, we understand that this remains an option, but we do not believe that this is an idea that currently enjoys much traction in the UK market. Thus, whilst we can see some potential benefits in companies using firms from more than one network, we continue to believe that it will not be a core factor in the long-term goal of increasing audit quality and choice.

Other issues

In 2006 the ABI issued a statement on auditor selection, it stated that audit committees should not presuppose investors necessarily expected them to select a "Big 4" firm to conduct the audit. We remain committed to a market solution, but we recognise that any improvement in choice will be gradual. The debate in the UK cannot be conducted in isolation as any improvements in the audit market will involve co-operation and change at both an EU and international level. We would encourage the FRC and others to continue their efforts in these areas.

Yours Sincerely



Marc Jobling
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