



**Choice in the UK Audit Market**  
**Market Participants Group**  
**Terms of Reference**

**Background**

1. The objectives of the 'Choice in the UK Audit Market' project are to identify, assess and promote actions to enhance the efficiency of the market for the audit of major public interest entities in the UK and mitigate the risks arising from the characteristics of the market. In undertaking this work, the FRC recognises the importance of the quality of audit work and is committed to avoiding actions that would damage the quality of audit services.
2. The intended outcomes from this project include:
  - Increased choice of auditors.
  - Reduced risk of an audit firm leaving the market without good reason.
  - Reduced uncertainty and disruption costs in the event of an audit firm leaving the market.
3. The nature of the risks associated with the current characteristics of the market for the audit of major public interest entities are such that actions may be required by each of:
  - Market participants
  - Regulatory authorities
  - Legislators.
4. In the first stage of the project the FRC has:
  - Jointly with the Department of Trade and Industry commissioned a study, "Competition and Choice in the UK audit market".
  - Published a Discussion Paper for consultation in May 2006.
  - Facilitated a public debate by hosting two stakeholder meetings and publishing responses to the Discussion Paper.
5. In the second stage of the project, the FRC will:
  - Convene a Market Participants Group that will identify and assess possible market-led actions to mitigate risks.
  - Liaise with other relevant regulators to identify and assess possible regulatory actions to mitigate risks.



- Consult widely over actions proposed for implementation.
- Agree with market participants and other regulators specific steps to implement actions to mitigate risks.

### **Purpose and activities of the Market Participants Group**

6. The Market Participants Group has been established to provide advice to the FRC and, in particular, it will identify and assess possible actions which market participants could take to mitigate the risks arising from the characteristics of the market for the audit for major public interest entities in the UK.
7. The primary focus of the Group will be actions that would be carried out by market participants. The FRC will, separately, work with other regulators to identify and assess actions that could be carried out by regulators. There will be regular communication between the Market Participants Group and the Regulators Group.
8. The Group will build on responses to the FRC's Discussion Paper and the debate at the second stakeholder meeting. The activities of the Group are expected to include:
  - Defining the risks arising from the characteristics of the market.
  - Defining the criteria by which possible actions to mitigate risks should be assessed.
  - High-level assessment of a 'long list' of possible actions.
  - Further assessment of a selection of possible actions to mitigate risks.
  - Reporting on the outcome of the assessments.

### **Composition and membership**

9. The Market Participants Group will comprise of individuals from stakeholder groups in the market for the supply of, and demand for, audit services to major public interest entities in the UK. The three principal stakeholder groups are:
  - The entities being audited
  - The firms providing audit services
  - Shareholders and other users of audit services
10. The membership should provide, to the extent practicable, a balance of participation across the different stakeholder groups. The composition of the Group has been approved by the FRC Council.



11. Members of the Markets Participants Group will be appointed as individuals based on their knowledge about the preparation or use of audit reports, and the auditor selection process and their seniority. They will not be expected to represent their own organisations but instead to have regard to the public interest.

### **Operating procedures**

12. The Chief Executive of the FRC will be the Convenor of the Group. The Convenor will chair meetings, ensure that members are able to have a full say on the issues being raised and discussed and encourage members to reach collective views on issues and how best to address them.
13. The Secretariat of the Group will be provided by the FRC. The Secretariat will prepare draft project plans, agendas and minutes of meetings for consideration by the Group and will ensure effective liaison between the Market Participants Group and the work of the FRC and other regulators on regulatory measures. The FRC will carry out technical analysis on behalf of the Group.
14. The Group is expected to meet around once a month for 2 to 3 hours. Members may also be asked to comment on papers outside of the meetings.
15. The Group will be expected to operate in a transparent manner, with information on its activities being made publicly available. The Group will report publicly on its views once these have been agreed.

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