



Association of British Insurers 51 Gresham Street, London EC2V 7HQ Tel: 020 7600 3333 Fax: 020 7696 8999

Direct Tel: 020 7216 7659
Email: Michael.mckersie@abi.org.uk
Direct Fax: 020 7696 8979
6 June 2008

Chris Hodge
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

Dear Chris

Consultation on proposed changes to guidance on audit committees

I am writing in response to the FRC's consultation on proposed changes to the 'Smith' guidance. We are pleased to see the FRC responding to the Market Participants Group's recommendations on ensuring audit quality and the integrity of the audit process in the face of challenges that the market for audit services presents. We note also, and comment briefly, on the consultation on the wording in respect of audit committee membership qualification criteria that follow from the decision to modify the provisions of the Combined Code. We have one further point to make, reflecting possible changes to the current regime on audit partner rotation.

Smith Guidance

Our Association supports the recommendations of the Market Participants Group including the four of relevance to audit committees. We concur with the proposed wording changes in the Smith guidance designed to reflect three of these, viz Recommendations 8, 9 and 15 on shareholder communications, disclosure of contractual obligations to appoint certain types of firm, and on evaluation and planning for risks of withdrawal of a company's auditor from the market.

We concur with most of the proposed changes in respect of Recommendation 12 relating to obligations to assess objectivity and independence of the external auditor. There are merits in achieving consistency of language with standards applicable in other jurisdictions. However, we do not believe that this should be used as justification for a lowering of important standards if there is not a convincing case made for change.

We also agree with the MPG that to require, as now, the audit committee to ensure independence and objectivity could be interpreted as setting a very high standard. The absolute certainty might not be capable of being delivered at an acceptable cost. However, we do not believe the rewording on this point implements the MPG's intentions in the optimum manner. In particular, we consider that the suggested alternative goal of reducing any threat to an acceptable level is too weak a formulation. It is unclear what level should be thought to be acceptable and we do not consider it right to flag that there

exists some level of threat that should be tolerated. We believe that the guidance should require, at least, that audit committees consider what safeguards are in place to "minimise" any threat.

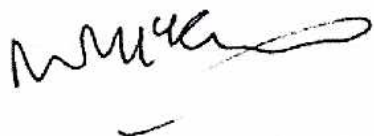
Possible Combined Code changes

We note that the FRC has now announced that it intends to proceed with the proposal that in non-FTSE350 companies the Chairman of the company will be permitted also to be a member of, but not chair, the audit committee. As we conveyed in our response to previous consultation on the question we did not believe that the case for a special carve-out had been made rather than to leave this as a matter that could be addressed through the existing comply-or-explain framework. However, on the basis that the change is to be taken forward, we consider the proposed changes to the Smith guidance on this point to be in order.

Audit Partner rotation

The Auditing Practices Board has recently undertaken a consultation on Ethical Standards for Auditors which included a possible change to the regulations relating to audit partner rotation. We believe that there might be scope for introducing an element of flexibility in exceptional circumstances but believe this would need to be balanced by an additional measure of consultation and dialogue between audit committees and shareholders. This would be very much in accordance with the Code's 'comply-or-explain' framework and shareholder consultation expectations over what would be a departure from normal benchmark practice. This would require either the Code, or more likely the Smith guidance, to be modified to accommodate this change. We suggest account is taken of any developments on this front as the current consultation on changes to the Smith guidance is taken forward.

Yours sincerely



M W McKersie
Assistant Director
Capital Markets

[m:\inv\mmck\letters\mar08\L190508]