



Our ref: njt
Your ref:

2 Bloomsbury Street
London
WC1B 3ST
Tel: +44 (0)20 7413 5100
Fax: +44 (0)20 7413 5101
DX: 1040 London/Chancery Lane
www.bakertilly.co.uk

Julian Rose
Financial Reporting Council
5th Floor,
Aldwych House,
71-91 Aldwych,
London
WC2B 4HN

5 July 2007

Dear Mr Rose,

Market Participants Group consultation

I very much welcome the opportunity to respond to the provisional recommendations of the Market Participants Group and set out my comments below;

1 Criteria for assessing the merits of the provisional recommendations

I support the evaluation criteria although “impact” could replace “effectiveness”?

2 Commentary on provisional recommendations

-Objective A

My overall view would be that twelve recommendations are too many and distracts the reader from some of the key issues. In isolation, none of the recommendations will serve to increase choice and it is questionable whether they will do so collectively.

The report already acknowledges that, based on the provisional recommendations, it may take many years to achieve increased audit choice for major public interest entities, and I can but agree. I very much welcome the market based response mechanism but fear that retention of the status quo is in the interests of many of the key market participants and a market based solution to the issues identified will be slow in developing. The approach adopted is a vital first step, but consideration should be given to the setting of a tight timetable for review of the effectiveness of the outcomes should the provisional recommendations be adopted by the FRC.

Market participants have different agenda and are unlikely in isolation, and in the absence of regulation, to change the characteristics of the market for audit services. There are relatively few entities where audit choice is restricted and restrictions usually occur due to lack of industry expertise (eg financial services)



or perceived lack of geographical cover and recommendation 7 is welcomed in this respect. One key group of market participants that have not really been covered by the proposed recommendations are, however, the investors themselves.

Investors have a major role to play in breaking down the barriers to competition and choice but have effectively delegated such responsibility to Audit Committees. Such Committees can therefore only second guess investor attitudes in relation to opening up the audit market to firms with the requisite skills. Understandably, Committees will tend to adopt a cautious approach in light of the lack direct guidance from investors which serves to continually reinforce the “buy IBM” doctrine, one of the key barriers to greater competition and choice.

Investors look to Audit Committees to review audit quality and also to the Regulators to enforce the requirements of audit quality when matters go awry. Some of the solution is contained in the proposed recommendations with calls for a vote on the Audit Committee Report and more transparency in the auditor selection process. I think perhaps we need to go a step further, with investor group attendance/participation on Audit Committees so that they can view first hand the issues arising and form their own opinion on audit quality.

Recommendations 1 and 2 add little to the debate as firms will make any necessary investment (and generally have the resources to do so already) should commercially sensible business opportunities arise. The issue is that no firm is going to invest heavily in an area in the hope that some work may or may not subsequently materialise.

The recommendations do not address the issue of concentration within the Big 4 themselves, let alone increasing choice elsewhere. The impact of PWC leaving the audit market far outweighs the impact of any other firm so doing. Should a Big 4 firm leave the audit market, competition rules could be enforced to preclude a remaining Big 3 firm taking over such a firm, enabling skills and experience to filter through to a wider audit market.

If audit choice is considered to be a serious problem, then serious remedies are required. The options could include regulating the number of public interest entities that can be audited by any one firm or introducing the requirement for joint audits on the largest companies. Any such solutions impact market forces and will be resisted....it is merely a question of time as to when the changes will need to be enforced.

-Objectives B and C

The provisional recommendations are sensible and practical.



3 Summary

The report and the opportunity to comment are welcomed. My comments are personal and are not designed to undermine the excellent work that has taken place to date in what is a difficult area. My contribution is designed to promote further debate and to provide food for thought in what will be interesting times ahead.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Tristem', written over a horizontal line.

Nigel Tristem
Baker Tilly UK Audit LLP