



The voice of banking
& financial services

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6 July 2007

Dear Julian

Re: FRC Choice in the UK Audit Market – Interim Report of the Market Participant Group

This letter is the British Bankers' Association's response to the above consultation. The BBA is the leading UK banking and financial services trade association and acts on behalf of its members on domestic and international issues. Our 219 members are from 60 different countries and collectively provide the full range of banking and financial services. They operate some 130 million personal accounts, contribute £35bn to the economy, and together make up the world's largest international banking centre.

We welcome and broadly support the contribution of the Market Participants Group to the debate on audit choice and quality. The Group's work fits well with other important debates on possible reforms to the audit market currently being conducted by the European Commission and others. The efficient functioning of capital markets is key to market participants having confidence in financial reporting. Audits play a key role in nurturing this confidence. The Group rightly identifies the uncertainties which could arise from the failure of one of the Big Four as a risk to the market and the role that increased choice could play in mitigating this risk.

Increased competition is desirable and provides a further means of addressing the issues to those offered in other fora to limit auditor liability. Auditor liability is indeed a barrier to entry for new audit firms into the audit market but a cap – whether monetary, market capitalisation or audit fees – on auditor liability is unlikely to prevent the future collapse of one of the Big Four. Instead we would urge further consideration of proportionate liability.

Whilst recognising the importance of discussing audit choice in a UK market context, it is important that such issues are also discussed at the international level. The Big Four are global networks and past failures have clearly shown that loss of confidence by the market in a firm following its actions in one market can have wider effects. Thus, whilst there is a wholly appropriate place for the UK to lead global market practice in developing choice, we believe it would be appropriate for the FRC to engage and debate these issues with peers in other jurisdictions. In addition, recent regulatory dialogues have clearly indicated a move towards a system of global audit oversight; we would encourage continued movement towards the fulfilment of this objective.

We endorse the criteria used by the Group to assess the merits of its provisional recommendations. It is vital that the quality of audits is not diminished and that the costs of actions are proportionate to their benefits.

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Our only specific comment on the recommendations themselves relates to provisional recommendation 9 on the disclosure of contractual obligations to appoint certain types of audit firm. While we have no difficulty with the recommendation, we are not aware of it being prevalent market practice for banks or other corporate advisers to advise or insist upon clients using a Big Four firm. In the case of established borrowers, lenders typically work with the borrower's existing auditors, which often will be one of the Big Four although this is by no means always the case. The situation differs slightly in the case of leveraged loans, where the loan agreement may stipulate that an auditor of internationally recognised standing be used. We would therefore suggest that the commentary in the second two bullet points be rewritten more along the lines of something like:

"While there may be circumstances in which large corporates consider that their audit needs can only be met by a Big Four firm, there are others in which a firm outside the Big Four can equally meet their needs. Corporates therefore are encouraged to consider engaging a non-Big Four firm. In the event that requirements from banks or other corporate advisers form an important part of the Board's decision then it would be relevant for this to be explained to shareholders. This will ensure that outside limitations are not unduly placed on the choice of audit firm."

Yours sincerely,



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