



FINANCIAL REPORTING COUNCIL

**CHOICE IN THE UK AUDIT MARKET:
BRIEFING PAPER FOR SECOND STAKEHOLDER MEETING**

SEPTEMBER 2006

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One – Background

1. This briefing paper describes the debate which has taken place to date over the Discussion Paper, 'Choice in the UK Audit Market' which was issued by the Financial Reporting Council (FRC) in April 2006. The Discussion Paper following the publication of the report of a study jointly commissioned by the FRC and the Department of Trade and Industry (DTI), 'Competition and choice in the UK audit market', and a stakeholder meeting at which the study was discussed in April. The Study, conducted by economics consultancy Oxera, considered the factors that contribute to the competitive environment for audit services to large listed companies in the UK.

2. The Study looked at the characteristics of the UK audit market. It found that as result of the current competitive environment most large companies are perceived to have a choice of a maximum of four audit firms. In many cases the effective choice is perceived to be less than four firms because, for example, one or more firms might be ineligible for appointment as auditor due to auditor independence rules or due to a company's own policies and procedures. In a small minority of cases, particularly in the financial services sector, companies may have no effective choice of auditor in the short term. If one of the Big Four firms was to leave the market, a few large companies would be unable to find an auditor with appropriate capabilities causing uncertainty for companies and investors and a risk of disruption to the markets, at least in the short term.

3. The Discussion Paper suggested that risks to the effectiveness of the market for audit services, as identified in the Study, should be the subject of a public debate. The Discussion Paper sought views on the:

- Nature of any risks arising from the characteristics of the audit market
- Potential implications if any risks are realised
- Types of opportunities for mitigating such risks
- Potential effectiveness and proportionality of any opportunities for mitigating such risks.

4. 41 responses to the Paper were received. Responses that were not marked as confidential can be viewed at: www.frc.org.uk/about/auditchoice.cfm. Nine responses were from audit firms, four from companies or corporate representative bodies, and eight from investment managers or shareholder advisers. Others were from professional bodies, academics, regulators and private individuals.

5. The debate on these issues has not been limited to the written responses to the Discussion Paper. Meetings to discuss choice in the audit market were organised by, amongst others, the Corporate Governance Circle, the Centre for the Study of Financial Innovation, the Institute of Chartered Accountants of England and Wales, and Herbert Smith LLP. The Investment Committee of the Association of British Insurers released a statement in June encouraging companies to have an open mind and consider all choices when appointing auditors and a group of six investment management organisations wrote to audit committees along similar lines in July.

6. Section 2 of this paper considers the nature of any risks arising from the characteristics of the audit market, the implications if these risks were realised, and the need for a debate over risks and how to mitigate them. Sections 3, 4 and 5 consider the types of opportunities that may exist for mitigating those risks: Section 3 focuses on increasing choice; Section 4 on reducing the risk of an existing firm leaving the market without good reason; and Section 5 on reducing costs and uncertainty in the event of a firm leaving the market. Appendix 1 summarises the steps that were suggested by respondents for mitigating these risks.

7. In summarising views on the nature and significance of risks arising from the characteristics of the audit market in Section 2 we have sought to illustrate the full range of responses. In Sections 3, 4 and 5 we have sought to summarise all of the steps suggested for mitigating those risks. None of these steps have been evaluated at this stage, and in keeping with this approach we have not included in this document any advantages or disadvantages of particular steps that were suggested by respondents. Further work would be needed to evaluate steps, taking into account the advantages and disadvantages raised by respondents and the potential interaction between different steps.

8. We have included excerpts from responses throughout the document. Inclusion of views or suggested steps does not indicate endorsement or support of them by other stakeholders or the FRC.

9. It is unlikely that certain of the regulatory interventions shown in these tables could even be a possibility without there first being a market investigation reference to the Competition Commission, which in turn would only be possible if a prior assessment by the Office of Fair Trading (OFT) found that the criteria for a reference were satisfied. The OFT announced in 2002 that it would keep the accountancy and audit market under review, with the possibility of further action in the future, rather than making a reference to the Competition Commission or launching its own market study at that time.

10. There will be a stakeholder meeting on 18 September 2006 at 4pm in London. The stakeholder meeting will consider the extent of agreement amongst stakeholders for a number of tentative propositions that are based on responses to the Discussion Paper. The meeting will also provide an opportunity for stakeholders to comment on the next stage of the debate over Choice in the UK Audit Market. Details of this meeting are available on our website at www.frc.org.uk/about/auditchoice.cfm.

Two – Nature and significance of risks arising from the characteristics of the audit market

11. This section summarises the views of respondents regarding the:

- Nature of the risks arising from the characteristics of the audit market
- Significance of the risks and the need for a debate over them
- Criteria for evaluating risk mitigation opportunities identified as part of the debate.

Nature of the risks arising from the characteristics of the audit market

12. The Discussion Paper explained why a well-functioning audit market is essential to ensuring confidence in corporate reporting and governance, ultimately helping to protect and enhance the UK's economic strength in competitive international markets. We suggested that risks to the effectiveness of the market for audit services should, therefore, be the subject of public debate.

13. Question 1 of the Discussion Paper asked: "Do you agree that the focus of the debate should be on the degree of choice in the market for audit services to large public companies, rather than other features of this market?"

14. Most respondents agreed that the focus of the debate should be on the degree of choice, but that increased choice should not be promoted at the expense of the quality of work carried out by the audit firms. For example:

Whilst we agree that the focus of the debate should be on the degree of choice this must be set in the context of the need to ensure audit quality. Thus, it is important that audit quality does not reduce as a result of actions taken to maintain or increase choice.

BDO Stoy Hayward LLP

15. Some respondents suggested a need to debate the quality of audit services or their price, rather than or alongside the degree of choice. For example:

While we note that many of those surveyed in the recent Oxera research felt that the status quo with four large audit firms was one with which they could live, it was also clear that many would find the level of choice unacceptably narrow if the number of large firms were reduced to three. We concur with that view and are particularly worried about the further damaging effect that the absence of competition would have on quality. The issue is not merely one of price. A serious concern is regulatory capture. We are not comfortable with a position where large firms could determine the shape of regulation by threatening to withdraw from the audit market.

Association of British Insurers

We believe that only by making the quality of audits more visible and transparent to all players – not least those who pay for audits and for whose benefit they are carried out – will a more vibrant and competitive market develop. Quality will be central to promoting genuine choice in the audit market.

Hermes Investment Management Limited

We agree [that choice] is a focus. However, the significant increase in audit fees in recent years is also a feature of this market that concerns us and which we believe needs to be debated.

Friends Provident plc

16. Some respondents suggested that if the debate was to be focused on choice, this needed to be better defined, especially in two areas: Firstly, with regard to whether “choice” refers only to a choice between different audit firms, or also to a choice between different types of audit services. Secondly, with regard to whether the debate should be focused on all listed companies, or large listed companies such as those making up the FTSE 350, or only the very largest listed companies such as those making up the FTSE 100. For example:

Ensuring sufficiency of supply is a worthy goal. However, if the focus of debate is to be limited in this way, it should be made explicit, as dissatisfaction amongst those with an interest in large company audit is not necessarily limited to the adequacy of supply.

Independent Audit Limited

The focus of the debate should be on the FTSE350 given that this is where there is high concentration.

CIMA

The focus should be on companies on the Full List. The market segment outside the top 150 or so companies is where significant structured improvements can be made in the short and medium term. The risk is that if debate focuses on the very largest public companies nothing constructive will happen.

Grant Thornton UK LLP

17. At the Stakeholder Meeting held on 26 April 2006 it was suggested that the level of increase in audit fees shown in the Study had been overstated. Following that meeting we commissioned further analysis of audit fees from a team at Edinburgh University. This analysis found that despite efforts to identify and remove errors from the available data on audit fees it is inevitable that some inaccuracies will remain. It also found that estimates of the rate of increase in fees vary depending on how companies are selected for inclusion in the analysis. In our view these factors make it difficult to draw definitive conclusions on the level of change of audit fees and, therefore, on the relationship between audit fees and the characteristics of the audit market. Given the low relative importance which key decision-makers and stakeholders place on the level of audit fees on their auditor selection decisions we do not, at this stage, propose to invest further resources on this issue.

Significance of the risks and need for a debate over them

18. Some respondents stated that the risks were sufficiently significant to justify a public debate. For example:

The current market for audit services for large companies is a complex one and in a number of respects it is unsatisfactory.

The Hundred Group of Finance Directors

IMA agrees that a well functioning market for audit services is essential to ensuring confidence in corporate reporting and welcomes the FRC opening the debate on choice in the audit market.

Investment Management Association

This is an important issue and we value the work of the FRC in progressing the debate.

Deloitte & Touche LLP

19. Other respondents stated that any risks arising from the characteristics of the audit market are not significant. For example:

We believe that the effective degree of choice available to listed companies is now wider than is sometimes perceived and that there is currently no issue of such concern as to require active intervention in the market by regulators or government in the UK.

ICAS

We reiterate our belief that the audit market remains competitive and that there is sufficient choice of audit firm, even for the audits of very large public companies.

PricewaterhouseCoopers LLP

Criteria for evaluating opportunities identified as part of the debate

20. Question 2 of the Discussion Paper asked: "What do you regard as the most important criteria for evaluating any opportunities for mitigating risks arising from the level of choice in the market for audit services to large public companies?" The Paper included some examples of such criteria, including:

- Whether steps could be taken within the market rather than by regulators.
- Whether steps would maintain or improve audit quality whilst seeking to protect or enhance choice.
- If any modification to existing regulation was needed, whether this would help to achieve a better informed and more effective audit market whilst avoiding the significant disadvantages of measures that could distort the market by favouring one supplier over another.

21. Most respondents agreed with the criteria suggested in the Discussion Paper, particularly the preference for market-led steps. Many also emphasised the need for steps to be effective across international markets. For example:

In summary, we favour allowing the market to identify the appropriate solution and would encourage major regulators with overall responsibility for the long term stability of the global capital markets to take the lead in ensuring that a market-based solution is arrived at for this global issue.

KPMG LLP

Although many of the issues have an international dimension, it is only through such debate at national level that solutions will be found.

Association of British Insurers

22. Some respondents suggested that the priority should be to find effective steps, rather than necessarily those that were market-led. For example:

In principle we favour market-based solutions wherever possible, but the key criterion for evaluating any step is likely to be its contribution to easing the problem of concentration.

Association of British Insurers

23. Other respondents suggested that *only* market-led steps should be considered. For example:

In a response to the FRC consultation period a group of students from ESCP-EAP (European School of Management) produced four case studies where market entry has occurred in industries that share similar characteristics of the UK audit market. Since these are case studies the objective is to highlight key insights rather than provide a complete explanation, but all four case studies are examples that should reassure stakeholders that high concentration is not inevitable, and competitive behaviour is capable of finding a solution.

Anthony J. Evans

24. Other general criteria suggested included: Whether steps would be likely to achieve the necessary degree of change within a reasonable timeframe as efficiently and effectively as possible; whether steps would be commercial and self-sustaining, rather than requiring constant regulatory or other intervention; whether the benefits of steps would justify the short-term and long-term costs to companies, audit firms and other stakeholders; and whether steps would be likely to lead to higher or lower audit fees, and whether any higher fees would fall disproportionately on smaller companies. For example:

We would agree with all of the criteria listed. It might also be helpful to assess whether opportunities for mitigating risks are short-term or long-term in nature. There may be some measures that are appropriate as short-term solutions, but not long-term ones.

CIMA

We consider that transparency, efficiency and effectiveness are significant criteria. Any steps that are taken to address the issue of choice will be an intervention in the normal operation of the market. Having made this intervention we would be concerned that buying audit services would continue to be a commercial and arms-length transaction where competition was preserved and, hopefully, enhanced, between suppliers i.e. the market remains transparent and efficient.

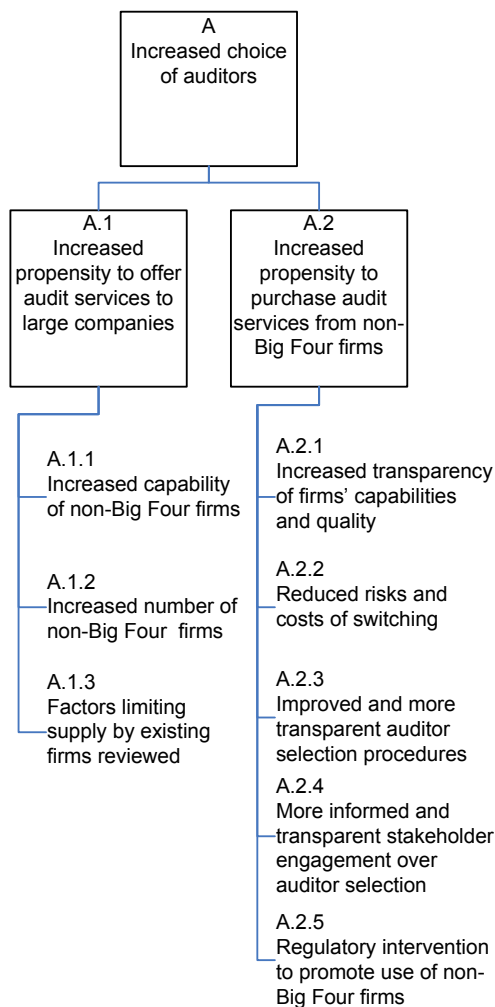
Friends Provident plc

Three – Promoting increased choice

25. The Discussion paper noted that the level of choice in the audit market is a function of both:
- The ‘supply-side’ of the market, i.e. the propensity of firms to offer audit services to large companies (see *Objective A.1*); and
 - The ‘demand-side’ of the market, i.e. the propensity of companies to purchase audit services from firms other than the Big Four (see *Objective A.2*).

26. Question 3 of the Discussion Paper considered possible changes to the ‘supply-side’ of the market, and Question 4 to the ‘demand-side’. Figure 1 summarises the objectives of steps suggested in both of these categories.

Figure 1: Objectives of steps suggested to help promote increased choice



Increasing the propensity of firms to offer audit services to large companies

27. Question 3 of the Discussion Paper asked: “We invite views on how different groups, acting individually or collectively, could increase the propensity of non-Big Four or new firms to seek to be major players in the market for audits of large companies.”

28. As shown in Figure 1, steps proposed by respondents had three main objectives:

- To increase the capability of non-Big Four firms (*Objective A.1.1*)
- To increase the number of non-Big Four firms (*Objective A.1.2*)
- To review factors limiting supply by existing firms (*Objective A.1.3*).

Increased capability of non-Big Four firms (Objective A.1.1)

29. Some respondents noted that non-Big Four firms are already investing to become significant players in the market for audits of large companies. Others noted the need for such investment to be sustained. For example:

As a leading “non-Big Four” firm we would confirm that we are actively seeking to be a major player in the market for the audits of large companies. We recognise that we, and other “non-Big Four” firms, have not been as clear about this ambition as we might be and that, until recently, we may not have had the capability to service this market. Over recent years we have recognised the market opportunity and have invested heavily in people development and training, infrastructure and the strengthening of our international network.

BDO Stoy Hayward LLP

No short term fix is available to non-Big Four firms to raise their performance on audit committees’ most important purchasing criteria. They will need to invest over a period of many years.

Deloitte & Touche LLP

30. It was suggested that non-Big Four firms could focus their investment in order to develop strong capabilities in specific sectors. For example:

Existing non-Big Four firms already have sector strengths and capabilities which would allow them to grow their audit business in certain specific sectors of the market. This seems a more likely scenario than a broader based programme of growth across a range of market segments where the audit firm concerned might not, traditionally, have been seen to have strengths.

PricewaterhouseCoopers LLP

31. It was suggested that non-Big Four firms might work together to develop and maintain their capabilities. For example:

A second tier of highly competent firms would be desirable – maybe through firms acting as joint auditors or collaborating to form a joint venture LLP – so as to ensure that the appropriate skills base is covered.

The Institute of Chartered Secretaries and Administrators

32. It was suggested that regulators needed to help firms to develop and demonstrate their expertise by ensuring all firms have equivalent access to information about regulation and how it is applied. For example:

[Steps should include] ensuring appropriate involvement of ‘non-Big Four’ firms in regulatory and standard setting bodies, thereby reducing their reliance on the ‘Big Four’ firms and ensuring that ‘non-Big Four’ firms have knowledge of the agendas of these bodies. This would also help address the concerns expressed by some that the best (if not the only) way for a company to have access to this information is by having a ‘Big Four’ firm as auditors.

BDO Stoy Hayward LLP

Increased number of non-Big Four firms (Objective A.1.2)

33. It was suggested that firms could work together to create a new audit venture that is targeted at the large company market. For example:

It may be that non-Big Four firms could best overcome the...problems by combining either formally or to form a joint venture (“Big 5 LLP”) rather than trying to attack the market alone. Such a joint venture could be focused solely on listed and big company audits and be staffed by partners and staff transferred from or on secondment from the constituent firms.

Governance for Owners LLP

34. It was suggested that there is a need for legislators and regulators to reduce the costs and risks of entering the market for large company audits. For example:

The introduction of audit liability reform would help to provide a level-playing field between different audit firms when competing for larger listed audits. To be effective, the reform needs to allow proportionate liability as is proposed in the Company Law Reform Bill. It must also ensure that any quantifiable limitation on audit liability on individual assignments is not anti-competitive.

RSM Robson Rhodes LLP

35. It was suggested that legislators or regulators could review regulation that acts to restrict access to the market for large company audits. For example:

The capital requirement for such investment [to enter the market], if it were to be made by a new firm, is practically incompatible with the notion that audit firms should be majority-owned by individual chartered accountants, which is a major feature of current auditing regulations in most countries. Providing practical possibilities to mobilise significant capital for investment would be the key to open market access to new entrants.

Nicolas Véron, Bruegel

36. It was suggested that legislators or regulators could intervene in the working of the market to increase supply. For example:

Audit firms should be in no doubt that the level of competition in the market is being actively monitored by authorities in both the UK and EU and that the authorities would require those with an excessive market share to divest a portion of their business.

Association of British Insurers

Reviewing factors limiting supply by existing firms (Objective A.1.3)

37. It was suggested that audit firms could act to reduce the number of cases where they are unable to offer audits to some large companies. For example:

Audit firms may have internal policies that prohibit them from taking an audit appointment where a substantial proportion of the company's subsidiaries are audited by other firms. This rests upon the presumption that the group auditors will place reliance on the audit opinions provided by such other firms, rather than undertake their own work independently of the statutory audits.

Independent Audit Limited

38. It was suggested that companies could reduce the number of cases where they are unable to consider a particular firm for their audit. For example:

For those who choose to use the Big Four for audit, it may be a sensible strategy to avoid the use of one of two of the Big Four firms (in addition to their existing auditor) for those services that would preclude their ability to compete for the audit. This may result in more use of non-Big Four organisations for those services that would prohibit competing for the audit.

Ernst & Young LLP

39. It was suggested that legislators and regulators could review existing auditor independence rules. For example:

It is worthy of note that some of the restrictions on choice are themselves the result of regulation imposed on the firms which prevents them from offering audit services to clients to whom the firm concerned provides certain prohibited non-audit services. We do not contend that all of these restrictions are unreasonable but point out that in practice the delivery of one policy goal can have repercussions in other areas. None of these issues can therefore be viewed in isolation.

PricewaterhouseCoopers LLP

Increasing the propensity of companies to purchase audit services from non-Big Four firms

40. Question 4 of the Discussion Paper asked: “We invite views on how the propensity of companies and their audit committees to purchase audit services from non-Big Four firms could be increased.”

41. As shown in Figure 1, steps proposed by respondents had five main objectives:

- Increased transparency of firms’ capabilities and quality (*Objective A.2.1*)
- Reduced risks and costs of switching (*Objective A.2.2*)
- Improved and more transparent auditor selection procedures (*Objective A.2.3*)
- More informed and transparent stakeholder engagement over auditor selection procedures (*Objective A.2.4*)
- Regulatory intervention to promote use of non-Big Four (*Objective A.2.5*).

Increased transparency of firms’ capabilities and quality (Objective A.2.1)

42. It was suggested that firms could provide the market with more information about their capabilities and quality. For example:

We believe that competent firms outside the Big Four could make a collective approach to the market, explaining their abilities (and their limitations) clearly, with a view to informing the market and overcoming some misperceptions that exist.

PKF (UK) LLP

43. It was suggested that regulators could facilitate the availability of more information about firms’ capabilities and quality. For example:

Greater transparency of the results of audit inspections would help dismantle some of the false perceptions identified in Oxera’s report. Furthermore, greater details about how conclusions of independent audit inspections are reached (and potentially publishing the conclusions) would provide better information to those responsible for audit appointments about the audit quality of firms.

Grant Thornton UK LLP

Reduced risks and costs of switching (Objective A.2.2)

44. It was suggested that firms could take steps to reduce the risks and costs of companies switching auditors. For example:

If the new auditor had access to the previous auditor's audit files, a much quicker understanding of the key audit issues that are likely to require attention could be gained. This would not absolve the new auditor from performing a thorough audit but should facilitate a smoother handover process resulting in lower costs associated with such a handover. Appropriate safeguards would need to be put in place for the outgoing auditor in respect of the access to these files. Similar "hold harmless" procedures already exist in transaction services engagements and could be extended to cover audits also.

KPMG LLP

45. It was suggested that legislators and regulators could take steps to reduce the risks and costs of companies switching auditors. For example:

Evidence from prior studies suggests that investors consider auditor change to be an important event. However, prior research has also shown that disclosure relating to the initiation of, and reasons for, auditor change in the UK is far from informative. This lack of information may prejudice stakeholders against a company that decides to change auditor, especially when the change is to a non-Big Four firm. The situation could be improved by seeking a better mechanism to disclose reasons for changing auditor as currently exists in the US, for example.

S. Abidin, V. Beattie, & A. Goodacre

Improved and more transparent auditor selection procedures (Objective A.2.3)

46. It was suggested that companies could improve their auditor selection procedures. For example:

We believe that the most significant contribution which can be made by companies and their advisers in the development of an appropriate market response is to do that which we strive to do in this as in other areas and be open-minded when inviting tenders either for audit or for non-audit work, seeking both optimal solutions on a case-by-case basis and the maintenance of relationships with a range of firms.

Group 4 Securicor

47. It was suggested that legislators and regulators could provide guidance to companies and their audit committees on auditor selection procedures. For example:

Legislators and/or regulators should establish guidance which sets as good practice the norm that issuers should put their audit franchise out to tender at regulator intervals (say at least every 7-10 years), and that the tender process should normally include at least one firm from outside the Big Four.

London Investment Banking Association

48. It was suggested that companies could make their auditor selection procedures more transparent. For example:

When an auditor is due to be changed, the audit committee should communicate with the company's major investors to explain the reasons for the change. The recent press release about competition in the audit market by the Association of British Insurers reflected the willingness of its members to be consulted.

Standard Life Investments

49. It was suggested that legislators and regulators could introduce new requirements for companies to make their auditor selection procedures more transparent. For example:

Audit committees of listed companies should be encouraged to disclose in their annual corporate governance reports how they have complied with the provision in the Combined Code on Corporate Governance which calls on them to review the effectiveness of the audit process. Where companies have not put their audit out to tender for, say, the last seven years they should also be invited to indicate when this last occurred and why they believe this is not needed. We would, of course, fully recognise though that when an audit is put out to tender the company may wish to reappoint the incumbent auditors.

RSM Robson Rhodes

More informed and transparent stakeholder engagement over auditor selection (Objective A.2.4)

50. It was suggested that companies could more actively consult stakeholders over auditor selection. For example:

Audit committees should make themselves available if necessary to explain to major shareholders any changes of auditor and consult them on the selection of an alternative from a wider range of firms. At present, shareholders ratify the appointment at the Annual General Meeting and are not involved in the selection process. Companies should also include more in their audit committee reports on discussions with the auditors and the level of non-audit services provided.

Investment Management Association

51. It was suggested that investors could engage more actively with companies and firms over auditor selection.

Shareholders should seek better explanations of the tender and re-tender process and support change when justified. It is not their role to provide support in the evaluation process itself.

The National Association of Pension Funds

52. It was suggested that legislators and regulators could require more informed and transparent shareholder involvement in auditor selection.

The single most significant step that could be taken by regulators and policy makers in this respect would be to begin a study of the options that could be used to introduce greater shareholder involvement in the selection, appointment and oversight of the auditor.

Morley Fund Management

Regulatory intervention to promote use of non-Big Four (Objective A.2.5)

53. It was suggested that legislators and regulators could intervene in the market to require companies to consider the use of non-Big Four firms. For example:

We believe that the dominance of just four firms in the global market for audit services and the strength of existing barriers to entry into this market are so serious as to prevent a significant and rapid shift in the structure of that market without some form of market intervention. In order to re-create an open market where market forces play their full role, we call for market intervention. This should be limited in scope and not be effected without a full Regulatory Impact Assessment. In our opinion, joint audit – where two firms with equal roles in the audit jointly form an opinion on the financial statements of a group - would be a potential solution with strong appeal.

Mazars LLP

Combinations of steps

54. Question 5 of the Discussion Paper asked: “We invite views on:

- a. The combination of steps that would be most likely to lead to increased choice.
- b. Whether these steps could be taken forward by market participants, or whether existing laws and regulations may constrain or prevent this.
- c. The costs of the steps relative to the risks arising from the existing or potential degree of concentration in the market.”

55. Some respondents noted that there is no single step that could successfully promote increased choice. Respondents suggested that there is a need to understand the factors limiting the effectiveness of the market, and address each of these. For example:

The current position has largely been brought about by the market itself through real and/or perceived need and no one action of itself is likely to change choice in the audit market significantly. The measures put forward for debate are not mutually exclusive and could be actioned in parallel. However, what must be considered is the nature of each measure and thus the costs and the consequences.

ICAEW

There is no silver bullet. A number of initiatives will be needed and they will need to be consistently pursued over a reasonable period of time.

56. Some respondents did suggest focusing the debate on specific steps. These included: entirely deregulating the audit market; 'eliminating' the Big Four from the audit market; prohibiting large audit firms from providing any non-audit services to any public interest entity; and allowing other professions and organisations to undertake audit work. For example:

My suggestion is that the Big Four should be eliminated from the audit market and a new market should be created where the participants should know their rights and responsibilities to stakeholders.

Duncan Alexander

I do not agree that the focus of debate should be on the degree of choice in the market for audit services to large public companies. This is because it is little use having an audit if it lacks quality, integrity and credibility in achieving the objectives specified in the Caparo Judgement of 1990. Indeed, the present system has such low quality, integrity and credibility one can argue that audits should not be mandated by government as was the case in the US prior to the 1933 legislation creating the SEC.

Shann Turnbull PhD, International Institute for Self-governance

Four – Reducing the risk of a firm leaving the market

57. Question 6 of the Discussion Paper asked “We invite views on steps that could be taken to mitigate the risk of unnecessary withdrawal of a firm from the market”.

58. The Discussion Paper noted that any measures designed to promote choice would take time to have any significant effect and, therefore, any risks arising from the competitive environment are likely to persist for some time. In the meantime, there are risks that one of the Big Four firms (or indeed, any non-Big Four firm providing audits to large companies) might leave the market, voluntarily or non-voluntarily. In these circumstances it is appropriate to consider ways to reduce the risk of a firm leaving the market. This might be particularly relevant when the threat to a firm is caused by damage to its reputation prior to the full circumstances of a problem being known.

59. Some respondents questioned what should be considered as an “unnecessary” withdrawal of a firm from the market, and suggested that if there is good reason the firm should leave the market. For example:

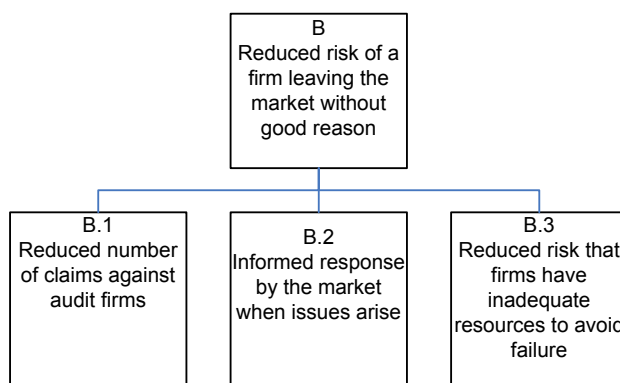
Generally speaking, it is not self-evident that significant public or collective efforts should be made to preserve audit firms which do not meet high standards of integrity.

Nicolas Véron, Bruegel

60. As shown below in Figure 2, steps proposed by respondents had three main objectives:

- Reduced number of claims made against audit firms (*Objective B.1*)
- Informed response by the market when issues arise (*Objective B.2*)
- Reduced risk that firms have inadequate resources to avoid failure (*Objective B.3*).

Figure 2: Objectives of steps suggested to reduce the risk of a firm leaving the market



Reduced number of claims made against audit firms (Objective B.1)

61. Whilst recognising that the firms already have the incentive to ensure that their operations are of a high quality, it was suggested that firms could do more to avoid catastrophic failures in all areas of their activities. For example:

[Firms] need to have in place effective governance and oversight of their global business activities enabling them to review their internal controls over risks more generally to ensure that they manage properly the risk of regulatory or other prosecutorial action for work done outside the ambit of audit and assurance engagements. In the UK context, such an outcome could, for example, be achieved by encouraging the UK firms' partnerships to adopt the Combined Code on Corporate Governance as it bears on how the firms are organised and administered.

Financial Services Authority

62. It was suggested that legislators and regulators could reform auditor liability. For example:

A disastrous claim in another jurisdiction, most obviously the US, has the potential to undermine an entire international network. That is why it is vital for suitable liability reform to be implemented, in particular, in the US and EU.

Ernst & Young LLP

63. It was suggested that regulators could clarify the role of auditors. For example:

Despite years of efforts by the profession to promote understanding, often there is a misunderstanding of the auditor's responsibilities and role. Clearly we are responsible and accountable for our audit work, but the standard reaction to pursue the auditors regardless of the circumstances following a corporate collapse continues to represent a threat to our survival.

Ernst & Young LLP

64. It was suggested that companies could monitor and influence the quality control procedures of their auditors. For example:

The Big Four firms have already increased their transparency by publishing annual financial statements, and the proposals for the full application of the Combined Code [to the firms]...could further encourage this. Audit committees of client companies should in any event be expected to review their auditors' annual report annually and discuss concerns with the audit partner.

Financial Services Authority

65. It was suggested that regulators could monitor, assess and report on the quality control procedures of the audit firms. For example:

The FRC in its role of auditor oversight regulator has a legitimate case that the quality of the major firms' internal management can affect the quality of the audit work they perform. On that basis we believe that the FRC should assess whether the audit firm has effective internal control procedures and an internal structure that minimises contagion risk from the wider network.

Financial Services Authority

Informed response by the market when issues arise (Objective B.2)

66. It was suggested that companies and their audit committees could, at a high level, plan for how they would ensure that their response to an issue faced by their audit firm was well-informed. For example:

In terms of whether we would stand by our auditor during a period of difficulty, it is impossible to hypothesise – if the situation arose, we would take soundings from the non-executive directors and key investors and act accordingly to protect the reputation of the company.

Confidential response

67. It was suggested that regulators could help by attempting to ensure that the market has the information it needs to respond to issues faced by audit firms. For example:

In the event of a similar corporate collapse in the future [Enron], it is vital that all parties and stakeholders involved react in a timely but measured manner to ensure that all the facts of the matter are fully known and communicated effectively to enable balanced views to be formed and appropriate decisions to be taken.

KPMG LLP

Reducing the risk that firms have inadequate resources to avoid failure (Objective B.3)

68. It was suggested that regulators could review the adequacy of firms' financial security. For example:

In short, the FRC should develop regulatory checks that assess the safety and soundness of the firm and its ability to continue to trade and avoid a disorderly withdrawal from the market. Such a system of oversight need not extend to capital adequacy assessments, as auditing is not a service that requires particularly high levels of capital. However, it should involve reviewing the firm's own assessments of its controls and the adequacy of its insurance cover to determine whether there is a risk of [failure].

Financial Services Authority

69. It was suggested that regulators should be transparent and consistent in applying penalties. For example:

Regulators around the world, particularly in the US, need to adopt a coordinated and proportionate perspective. They should encourage high quality auditing whilst helping to ensure the profession remains attractive for current and future participants.

Deloitte & Touche LLP

70. It was suggested that regulators could intervene in the functioning of the market to reduce risks of a firm failing. For example:

There may be cases where the only regulatory response to a problem will be to allow or require the firm to stop trading, but there will be far more cases where sanction is warranted but where it makes sense to enable the business to continue in its wider global form. In that context we note that the biggest danger is likely to be that the partners in the affected firm may seek to mitigate their risk and financial losses by leaving a "failing" network/brand and transfer to one of the other Big Four, taking their clients with them. Such a course of action may not be in the interests of the markets as a whole, and regulators may need to intervene to seek to achieve a different outcome.

Financial Services Authority

Five - Reducing uncertainty and disruption costs

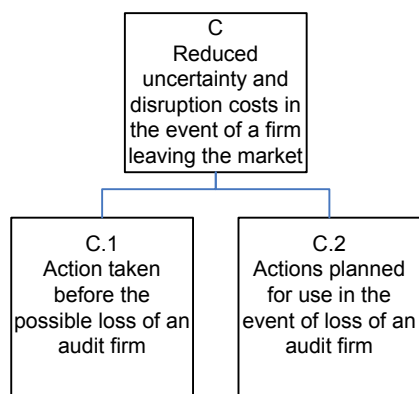
71. The Discussion Paper noted that if a firm did leave the market, the current competitive environment is such that there could be considerable uncertainty and disruption, resulting in significant costs for some market participants. The Discussion Paper noted, therefore, that it is necessary to consider ways to reduce the costs of uncertainty and disruption in the event of a firm leaving the market.

72. Question 7 of the Discussion Paper asked: “We invite views on steps that could be taken to mitigate the effects of a voluntary or involuntary withdrawal of a firm from the audit market.”

73. As shown below in Figure 3, steps proposed by respondents fell into two main categories:

- Actions taken before the possible loss of an audit firm (*Objective C.1*)
- Actions planned for use in the event of loss of an audit firm (*Objective C.2*).

Figure 3: Objectives of steps suggested to reduce uncertainty and disruption costs in the event of a firm leaving the market



Action taken before the possible loss of an audit firm (Objective C.1)

74. It was suggested that companies could take contingency actions to prepare for the possible loss of their auditor. For example:

We have high-level discussions on an ongoing basis with another Big Four firm regarding taking on our audit on an emergency basis.

Confidential response

75. It was suggested that regulators should take contingency actions to prepare for the possible loss of a firm. For example:

We suggest that the FRC should consider laying emergency plans so that if one of the Big Four did collapse, the remaining 'Big Three' would at least hold back from sweeping up the released clients and partners and staff. Would it be unreasonable to ask the Big Four to sign up to a Memorandum of Understanding that, in the postulated circumstances, they would hold back from recruiting staff and clients? Prior consultation with the [competition authorities] on the possible impact of competition law on any further consolidation among Big Four firms might usefully inform the FRC's approach to Big Four firms along the lines suggested. However this approach would only be acceptable if the second tier firms had been encouraged and supported (by the FRC) to develop plans so as to be ready to take on clients and staff in the event of a Big Four firm collapsing.

The Institute of Chartered Secretaries and Administrators

76. It was suggested that regulators should review the firms' contingency actions. For example:

The FRC should also review the firms' own contingency plans to determine whether they have adequate proposals to provide continuity of service to their audit clients in the event of a material problem in any major capital market.

Financial Services Authority

Actions planned for use in the event of loss of an audit firm (Objective C.2)

77. It was suggested that firms could introduce new arrangements for avoiding conflicts of interest when auditing clients in the same industry. For example:

On the exit of one of the existing Big Four firms, a significant problem for many companies will be the nature of the commercial relationships they have with the remaining three firms: effective choice of auditor may be further reduced because of conflicts of interest. A topic for debate will be the extent to which "Chinese Walls" within firms of accountants can be made effective in managing these conflicts to allow companies a wider choice of auditor.

Friends Provident plc

78. It was suggested that regulators could authorise new arrangements to allow ongoing audit fieldwork and audit opinions to be completed. For example:

The loss of a Big Four firm will have significant implications for many thousands of people. As the client transition process takes shape and firms assess their additional resource needs, regulators will need to maintain a dialogue with both the corporate community and audit firms to assess the situation and consider whether a temporary relaxing of existing regulations affecting either companies (such as reporting deadlines) or audit firms (regulatory inspections or follow-up procedures) would assist the transition process.

KPMG LLP

79. It was suggested that regulators could inform the public and address public concerns. For example:

The loss of a Big Four audit firm is likely to have a significant impact on the global capital markets...Throughout the transition process it will be incumbent on all stakeholders (regulators, audit firms, companies and investors) to maintain an open dialogue to ensure all relevant information is shared as needed to ensure the long term stability of the capital markets. Clearly the financial media will also have a significant role to play in this process. Major regulators with overall responsibility for the long term stability of the capital markets should take the lead in ensuring that this effective dialogue takes place if the circumstances arise in the future.

KPMG LLP

80. It was suggested that professional bodies should put in place contingency plans. For example:

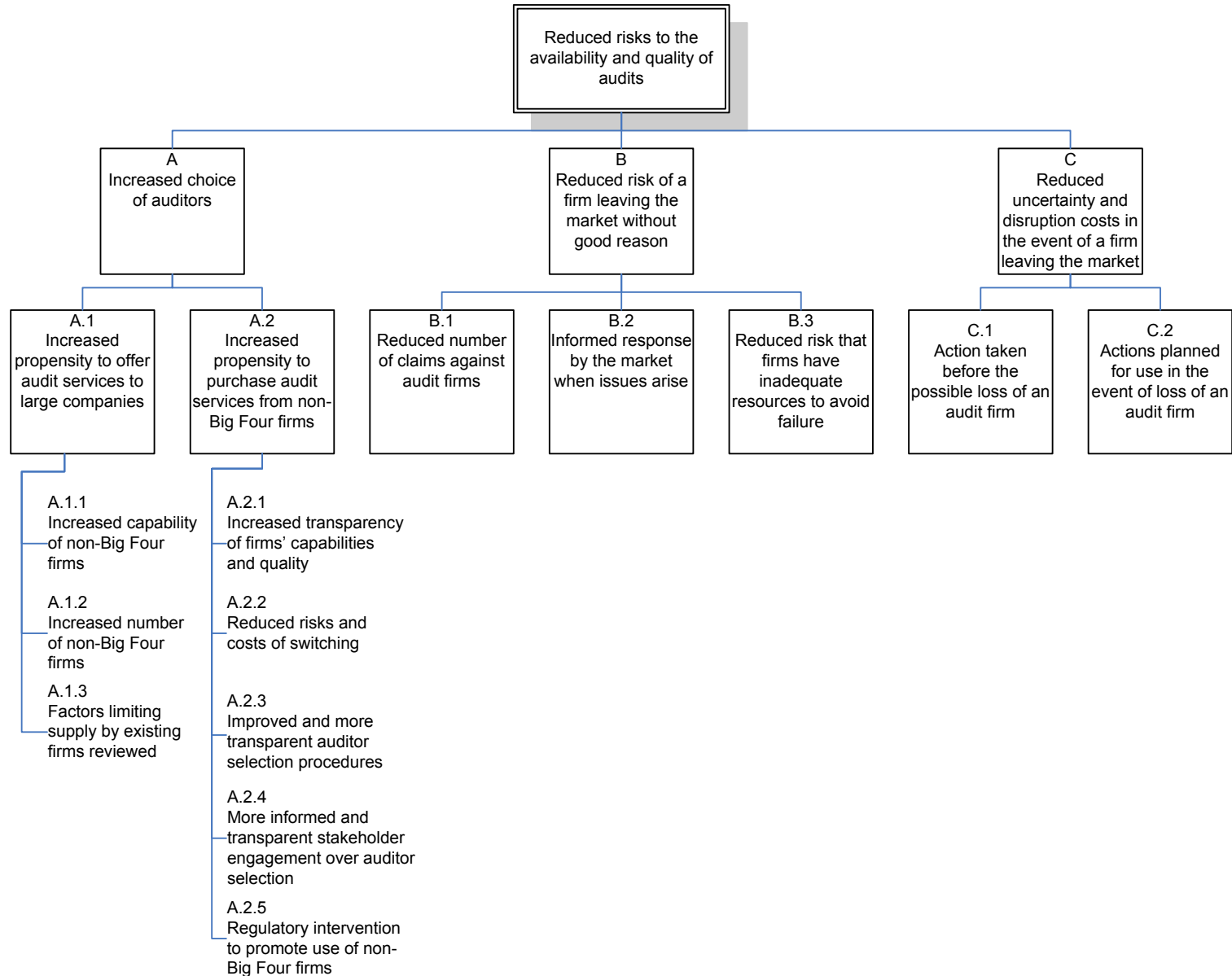
Audit firms and professional bodies should be encouraged to consider what contingency plans could be put in place to enable trainees to continue their studies without interruption in the short-term.

ACCA

Appendix 1: Summary of steps suggested for mitigating risks

The tables in this appendix show steps suggested by respondents for mitigating risks. In many cases the steps shown are summarised from several responses. More detailed suggestions can, therefore, be found in the individual responses available at www.frc.org.uk/about/auditchoice.cfm. The steps have not yet been evaluated.

Figure 4: Objectives of steps suggested to help reduce risks to the availability and quality of audits



Objective A.1.1: Increased capability of non-Big Four firms

Approach to achieving objective	Suggested steps
<p>Firms focusing their investment to develop capability in specific sectors</p>	<ul style="list-style-type: none"> - Firms could identify specific industry sectors in which to compete - Firms could focus on those companies which are mainly UK-based and so have less need for an extensive international audit network - Firms could invest to grow their presence and reputation in listed companies below the largest 150 or so, then use this as a platform for expansion into audit of largest companies
<p>Firms working together to develop and maintain their capabilities (subject to competition rules and approval)</p>	<ul style="list-style-type: none"> - To enable economies of scale from investment non-Big Four firms could cooperate in specific activities, such as training, technical research or developing industry-specific knowledge - Audit panels of appropriate providers of audit services could be established (perhaps specific to each sector) to share methodologies and knowledge
<p>Regulators helping firms to develop and demonstrate their expertise by ensuring all firms have equivalent access to information about regulation and how it is applied</p>	<ul style="list-style-type: none"> - Regulators could seek to ensure that non-Big Four firms are involved, and seen to be involved, in standard setting and other work - Regulators could promote faster progress towards the convergence of international accounting and auditing standards, ensuring these are principles-based where possible - Regulators could facilitate arrangements by which information about interpretation and application of IFRS becomes freely available rather than being held as proprietary knowledge of individual audit firms

Objective A.1.2: Increased number of non-Big Four firms

Approach to achieving objective	Suggested steps
Firms working together to develop and maintain their capabilities (subject to competition authority rules and approval)	<ul style="list-style-type: none"> - Non-Big Four firms could merge or form a joint venture that might focus on listed company audits
Legislators and regulators reducing the costs and risks of entering the market for large company audits	<ul style="list-style-type: none"> - Legislators and regulators could promote liability reform in all major economies where there is currently an unlimited liability regime - Regulators could provide guidance to ensure that arrangements for proportionate liability are neutral in terms of their effects on different sizes of audit firms - The availability of adequate insurance cover to firms could be reviewed, possibly with the Government providing some form of guarantee - Regulators could limit the rate of change and the complexity of accounting and auditing standards
Legislators and regulators reviewing regulatory restrictions on entry to the market for large company audits	<ul style="list-style-type: none"> - Regulation on access to outside capital for audit firms could be reviewed (European regulations currently prevent more than 49 per cent of any firm being owned by non-auditors) - Regulation could be reviewed to enable access to the market by firms with investment from many financial institutions - Licensing arrangements could be reviewed to enable non-UK based firms to operate in the UK
Legislators and regulators intervening in the operation of the market to increase supply	<ul style="list-style-type: none"> - A state-backed audit firm could be established - Government could introduce tax or other incentives to encourage investment by non-Big Four firms - Non-Big Four firms could be given financial incentives to bid for the tenders of large companies - Restrictions could be established on the market share of individual firms, either within the market for large company audits or specific sectors of it - Big Four firms could be forced to break up - Regulators could restrict the provision of non-audit services to audit clients - Regulators could require disproportionate minimal capital requirements for firms with high market shares

Objective A.1.3: Factors limiting supply by existing firms reviewed

Approach to achieving objective	Suggested steps
<p>Audit firms reducing cases where they are unable to offer audits to large companies</p>	<ul style="list-style-type: none"> - Firms could review policies that prohibit them from taking an audit appointment where a substantial proportion of a company's subsidiaries are audited by other firms - Audit firms could review, improve and demonstrate separation between audit teams to provide assurance to companies that conflicts of interest can be avoided
<p>Companies reducing cases where they are unable to consider an audit firm for their audit</p>	<ul style="list-style-type: none"> - Companies could review whether their internal requirements for auditor independence exceed the regulatory requirements
<p>Legislators and regulators reviewing existing auditor independence rules</p>	<ul style="list-style-type: none"> - Regulators could review audit independence requirements, e.g. audit staff personal credit cards - Regulators could review the current independence code in consultation with the corporate and investor community and move towards a consistent global approach to independence - Big-Four firms could be required to separate into 'pure' audit firms and advisory businesses

Objective A.2.1: Increased transparency of firms' capabilities and quality

Approach to achieving objective	Suggested steps
Firms providing the market with more information about their capabilities and quality	<ul style="list-style-type: none"> - Firms, individually or collectively, could communicate their capabilities more effectively and be specific about which market segments they seek to operate in - Firms could explain the ways in which their service offering is different and how this could generate higher quality audits, e.g. experience of key team members - Firms could publish more information regarding their quality control processes and standards across their networks¹ - Firms could engage systematically and at least annually with major investors, lawyers, bankers and other corporate advisers
Regulators facilitating the availability of more information about firms' capabilities and quality	<ul style="list-style-type: none"> - There could be greater transparency of the process and results of independent audit inspections in all major economies² - There could be greater transparency of the results of regulatory reviews of company financial reporting based on the identity of the auditor - Regulators could encourage the use of sector-specific auditor size rankings to show different groups of 'big four' firms in different sectors

¹ The Professional Oversight Board is currently consulting over the implementation of the Article 40 of the 8th Company Law Directive of the European Commission that requires, as a minimum, that auditors of listed UK companies should publish annual transparency reports.

² The Professional Oversight Board is currently consulting over public reporting of the results of the monitoring of audit quality.

Objective A.2.2: Reduced risks and costs of switching

Approach to achieving objective	Suggested steps
Firms reducing the risks and costs of switching	<ul style="list-style-type: none">- Outgoing auditors could pass on to their successors audit documentation subject to appropriate safeguards- Firms could carry out a review to determine whether any measures could improve the switching process
Legislators and regulators reducing the risks and costs of switching	<ul style="list-style-type: none">- Alleviating the pressures on directors or audit committee members so as to reduce the personal risk of choosing a smaller firm- Legislators and regulators could develop appropriate safeguards (e.g. effective “hold harmless” letters) to enable access to audit files following a change of auditors- Improved arrangements could be introduced for more transparent and timely disclosure of auditor changes

Objective A.2.3: Improved and more transparent auditor selection procedures

Approach to achieving objective	Suggested steps
<p>Companies improving auditor selection procedures</p>	<ul style="list-style-type: none"> - Companies could actively develop or strengthen their links with a wider range of auditors, e.g. through engaging firms on projects or appointing joint auditors - Companies could make auditor selection the clear responsibility of a properly constituted audit committee, ensuring choice is not made by management and then ratified by the audit committee - Companies could commit to be open-minded when inviting audit tenders
<p>Legislators and regulators providing guidance to companies and their audit committees on auditor selection procedures</p>	<ul style="list-style-type: none"> - Guidance could be developed for audit committees and boards on reviewing auditors, and the auditor selection process - Guidance could be developed on handling potential conflicts of interest when a company's finance director or audit committee chair is an alumni of the audit firm being appointed - Regulators could provide guidance to audit committees on cost and benefits of using the same firm to audit consolidated accounts for shareholders and statutory accounts of subsidiaries
<p>Companies making more transparent their auditor selection procedures</p>	<ul style="list-style-type: none"> - Companies could explain why they are proposing a particular firm for election or re-election at the Annual General Meeting - Companies could publish the criteria they are using regarding auditor selection
<p>Legislators and regulators introducing new requirements for companies to make their auditor selection procedures more transparent</p>	<ul style="list-style-type: none"> - Companies could be required to disclose connections to audit firms of their Finance Director and Audit Committee members - Companies could be required to disclose information about the company's auditor selection procedures and decisions - Companies could be required to disclose the number of years since the last auditor re-tendering exercise - Audit committees could be required to include more details in their reports on auditor selection

Objective A.2.4: More informed and transparent stakeholder engagement over auditor selection procedures

Approach to achieving objective	Suggested steps
<p>Companies more actively consulting stakeholders over auditor selection</p>	<ul style="list-style-type: none"> - Companies could communicate more frequently with their major investors over auditor selection - Companies could hold wider discussions with their lawyers, investment bankers and other advisers on auditor selection
<p>Investors engaging with companies and firms more actively on auditor selection</p>	<ul style="list-style-type: none"> - Investors could adopt, disclose and implement policy guidelines regarding their approach to auditor selection by companies - Public statements could be made by investors and investor groups over their generic views on auditor selection - Investors could make it easier for companies to seek their input regarding the auditor selection process - Investors could support their statements on auditor selection by demonstrating how they have followed their own guidance
<p>Legislators and regulators requiring more informed and transparent investor involvement in auditor selection</p>	<ul style="list-style-type: none"> - Best practice guidance could be provided to companies on communication with investors over the auditor selection process - Auditor appointments could be made by shareholder committee - Companies could be required to obtain a shareholder vote on the report of the audit committee

Objective A.2.5: Regulatory intervention to promote use of non-Big Four firms

Approach to achieving objective	Suggested steps
Legislators and regulators requiring companies to consider use of non-Big Four firms	<ul style="list-style-type: none">- A requirement for limited, fixed term auditor appointments could be introduced- A requirement for auditor rotation could be introduced- A requirement for use of joint auditors could be introduced- Companies could be required to use a certain audit firm- Regulators could review the use of loan covenants that might require a company to have a Big Four auditor

Objective B.1: Reduced number of claims against audit firms

Approach to achieving objective	Suggested steps
Firms avoiding catastrophic errors in all areas of their activities	<ul style="list-style-type: none"> - UK firms could review their processes for ensuring the quality of audit work by overseas affiliates on major subsidiaries of UK groups - UK firms could review the effectiveness of their governance and oversight of their global business activities outside the ambit of audit and assurance engagements - UK firms could adopt the Combined Code on Corporate Governance as it bears on how firms are organised and administered - Firms could disclose more information about the structure of their international networks and member firms, and their liability and incentive mechanisms
Legislators and regulators reforming auditor liability	<ul style="list-style-type: none"> - Legislators and regulators could introduce proportionate liability arrangements for auditors - Legislators and regulators could promote liability reform in all major economies where there is currently an unlimited liability regime
Regulators clarifying the role of the auditor	<ul style="list-style-type: none"> - Regulators could improve clarity as to the role of the auditor, including in relation to the detection of fraud
Regulators monitoring, assessing and reporting on the quality control procedures of the audit firms	<ul style="list-style-type: none"> - Regulators could create new whistle-blowing mechanisms for audit staff under existing legislation - Regulators could assess and report on whether audit firms have effective internal control procedures and an internal structure that minimises contagion risk from the wider network - Regulators could review firms' own assessments of their controls and adequacy of insurance cover to determine if there is a risk of firm failure
Companies and their audit committees monitoring the quality control procedures of their auditors	<ul style="list-style-type: none"> - Audit Committees could review the annual report published by their auditor and discuss concerns with audit partners

Objective B.2: Informed response by the market when issues arise

Approach to achieving objective	Suggested steps
<p>Companies and their audit committees planning for how they would respond if issues arose with their audit firm</p>	<ul style="list-style-type: none"> - Companies could review and assess the risk of loss of their auditor and the risk of loss of a potential auditor - Audit committees could meet with investors, lawyers and bankers to discuss how best to deal with any emerging problems with audit firms
<p>Regulators attempting to ensure that the market has the information it needs to respond to issues faced by audit firms</p>	<ul style="list-style-type: none"> - In the event of a problem arising with an audit firm, regulators could help provide accurate and timely information to stakeholders - Regulators could attempt to maintain market confidence in the firm, including among the media and politicians, until the facts of any issue are properly established - Regulators could make clear that they would not be reluctant to impose appropriate sanctions against firms for fear of causing a failure

Objective B.3: Reduced risk that firms have inadequate resources to avoid failure

Approach to achieving objective	Suggested steps
<p>Regulators reviewing the adequacy of firms' financial security</p>	<ul style="list-style-type: none"> - Regulators could develop checks that assess the safety and soundness of audit firms, e.g. reviewing the firm's own assessments of its controls and the adequacy of its insurance cover - Regulators could review firm's contingency plans to determine whether they include adequate provisions to provide continuity of service in the event of a material problem in any major capital market
<p>Regulators being transparent and consistent in applying penalties to firms</p>	<ul style="list-style-type: none"> - Regulators could develop global protocols for a measured and proportionate response to alleged poor quality work by individual audit partners or offices
<p>Regulators intervening in the functioning of the market to reduce risk of a firm failing</p>	<ul style="list-style-type: none"> - Regulators could intervene to avoid partners in affected firms seeking to mitigate their risk and financial losses by leaving a 'failing' network/brand and transferring to one of the other Big Four, taking their clients with them - Regulators could require firms to set aside a reserve, possibly funded by a 'tax' on clients

Objective C.1: Action taken before the possible loss of an audit firm

Approach to achieving objective	Suggested steps
Companies putting in place contingency plans	<ul style="list-style-type: none"> - Companies could develop risk mitigation plans for the loss of their auditor, possibly involving periodic tendering and rotation of auditors or use of joint auditors - Audit committees could identify, as a contingency measure, one or more firms that could take over the audit if necessary - Companies could disclose whether they have identified a suitable reserve auditor - Large companies could limit or avoid giving non-audit work to a firm which may in practice be their only alternative auditor
Regulators putting in place contingency plans	<ul style="list-style-type: none"> - Regulators could make arrangements for an 'auditor of last resort' to be available to take over audits - Regulators could develop an 'emergency basic audit' for use under certain conditions - Regulators could test possible new arrangements by considering various circumstances under which a firm might leave the market
Regulators reviewing contingency plans of firms	<ul style="list-style-type: none"> - Regulators could review the firms' own contingency plans to determine whether they have adequate proposals to provide continuity of service

Objective C.2: Actions planned for use in the event of loss of an audit firm

Approach to achieving objective	Suggested steps
Firms introducing new arrangements for avoiding conflicts of interest	<ul style="list-style-type: none"> - Firms could enhance how they demonstrate to competing companies that there is no threat from using the same auditor
Regulators authorising new arrangements to allow ongoing audit fieldwork and audit opinions to be completed	<ul style="list-style-type: none"> - Regulators could allow firms in trouble to maintain their audit registration during a 'period of grace' to enable them to complete the fieldwork - Regulators could introduce temporary changes to restrictions on providing audit services due to the provision of non-audit services - Regulators could review arrangements for audit inspections or follow-up procedures to take account of higher number of audit transitions - Regulators could give companies extra time to file accounts and regulatory returns or dispensation to file preliminary, un-audited accounts
Regulators informing the public and addressing public concerns	<ul style="list-style-type: none"> - Regulators could keep corporate and investor communities and the press well informed to minimise risk of a destabilising run on confidence - Regulators could provide appropriate information to audit committees to inform them of the problems faced by the firm, whether the issue is systemic, and actions to prevent it reoccurring - Regulators could recommend that competition authorities should review the market following the loss of a Big Four firm
Professional bodies putting in place contingency plans for students and trainees	<ul style="list-style-type: none"> - Bodies could put in place arrangements to enable trainees to continue their studies without interruption in the short term - Bodies could arrange to provide trainees with advice and assistance in finding a new training contract or transferring existing contracts

Appendix 2: List of respondents to Discussion Paper *(excluding confidential responses)*

Alan Faulkner
Anthony J. Evans
Association of British Insurers (ABI)
BDO Stoy Hayward LLP
Deloitte & Touche LLP
Duncan Alexander
Ernst & Young LLP
Financial Services Authority (FSA)
Friends Provident plc
Governance for Owners LLP
Grant Thornton UK LLP
Group 4 Securicor plc
Hermes Investment Management Limited
Ian Hargrave
Ilias G Basioudis, Aston University
Independent Audit Limited
Institute of Credit Management
Investment Management Association (IMA)
Dr. Kevin McMeeking, University of Exeter
KPMG LLP
London Investment Banking Association (LIBA)
Mazars LLP
Morley Fund Management
National Audit Office
Nicolas Véron, Bruegel
P L Bunting
PKF (UK) LLP
PricewaterhouseCoopers LLP
RSM Robson Rhodes LLP
Shamharir Abidin, Vivien Beattie, and Alan Goodacre (University of Stirling, University of Glasgow)
Shann Turnbull, International Institute for Self-Governance
Standard Life Investments Limited
The Association of Chartered Certified Accountants (ACCA)
The Chartered Institute of Management Accountants (CIMA)
The Hundred Group of Finance Directors
The Institute of Chartered Accountants in England and Wales (ICAEW)
The Institute of Chartered Accountants of Scotland (ICAS)
The Institute of Chartered Secretaries and Administrators (ICSA)
The National Association of Pension Funds