USS
INVESTMENT
MANAGEMENT
LIMITED

Keith Billing
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

20th March 2015

Dear Mr. Billing,

RE: FRC Consultation on Auditing and ethical standards – implementation of the EU Audit Directive and Audit Regulation

The Universities Superannuation Scheme (USS) is one of the largest pension funds in the UK with total fund assets of approximately £43 billion. The scheme's trustee is Universities Superannuation Scheme Limited. The trustee company has a wholly owned in-house investment management subsidiary company, USS Investment Management Ltd, which is responsible for providing investment management and advisory services to the trustee company. As a defined benefit scheme, operating as an in-house fund manager and asset owner, USS's long-term perspective and active and responsible approach towards investing distinguishes us from many other institutional investors.

We take seriously our role as a long-term owner of companies and other assets, and devote substantial resources to overseeing and monitoring their boards, management and performance. Reliable and high quality audited accounts are a prerequisite for investors to discharge their stewardship and fiduciary responsibilities; therefore independent scrutiny by an external auditor is a critical element of governance controls.

USS convened an international coalition of investors in 2012 to focus on audit and accounting issues and ensure that the long-term institutional investor voice was represented in the various discussions on the future of audit with the UK Competition Commission, FRC and the European Commission. A summary of this initiative and the relevant submissions is available on the USS website (www.uss.co.uk). We are supportive of the European Directive 2014/56/EU and consider its implementation in the UK provides an opportunity to strengthen the audit market for the benefit of investors.

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Non-Audit Services and related Fees

Specifically we would like to highlight the following key issues regarding the proposed rules on non-audit services and related fees.

We believe that the provision of non-audit services introduce a potential conflict of interest within the audit firm, particularly where non-audit work is more profitable than statutory audit work. It is important this conflict of interest is managed through a mix of regulation, the audit firm's own internal control processes, and oversight by the company's audit committee. The FRC has an important role to play to ensure that the rules are appropriately drafted to reduce opportunities for companies to circumvent the spirit of the regulations.

USS considers that auditor independence is potentially compromised when non-audit services fees exceed 50% of the audit work. We apply this policy to the statutory auditor's firm network and related fees for a company's entire audit and non-audit services as disclosed in the Annual Report and Accounts.

We would encourage the FRC to avoid unnecessary complexity and promote transparency by being consistent in its rules regarding the scope of the non-audit services and the cap on the non-audit fees. This can be achieved by ensuring that the lead group auditor and its network firms comply with the restrictions at both an individual level and at a group level.

We would also encourage the FRC to review its calculation on the non-audit fee cap. Although we agree that for regulatory purposes, a cap at 70% may be appropriate, we have concerns regarding the ability within the drafted rules to bypass the rule. We believe the three year average calculation is superfluous as the two year exceptional circumstances rule will continue to apply and offers appropriate flexibility for unforeseen events.

I hope that you find USS's perspective on this issue useful. Please feel free to contact me should you require any additional information.

Yours sincerely,

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USS Investment Management Ltd

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