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Dear Susan

HSBC Holdings plc: Response to *Audit Committee Standards* consultation

I respond on behalf of HSBC Holdings plc ('HSBC') to your November 2022 consultation regarding *Draft Minimum Standards for Audit Committees (Draft Standards)* on the appointment and oversight of auditors.

We are broadly supportive of the Draft Standards and comply with virtually all of them already, including those in respect of audit tendering. As announced on 20 January 2023, we recently completed a formal competitive tender for audit services for 2025 and beyond.

However, we highlight the following aspects of the Draft Standards for further consideration:

- **Audit competition:** We are concerned that the Draft Standards place unrealistic expectations on committees to ensure there is competition and choice in audit tenders. Specifically, the Draft Standards require audit committees to 'ensure companies have a sufficient number of potential auditors that are independent, or capable of becoming so, in order to allow for adequate competition and choice in a subsequent tender'. Audit committees need to be mindful of the need to run competitive audit tenders as required. However, in a global audit market with a limited number of firms able to act due to capacity and capability constraints, and other external conflicts (e.g. other jurisdictions' auditor rotation requirements), very few audit committees have the practical ability to *ensure* sufficient competition.
- **In-scope entities:** The Draft Standards apply to premium listed entities within the FTSE 350. Recent UK Government and Financial Reporting Council proposals have applied variously to listed companies, FTSE 350 companies, Independent Public Interest Entities (PIEs), wholly-owned PIEs (within a PIE group) etc. While many entities will apply these Draft Standards voluntarily, continued differences in scope create unnecessary confusion amongst stakeholders. We think the Financial Reporting Council should specifically scope out wholly-owned PIEs from most of these requirements as they can be more effectively dealt with at the group-level.

- **Broader Assurance:** Given the UK Government's intention to move forward with company-specific audit and assurance policies, the Draft Standards would helpfully provide interim standards on the oversight of broader external assurance (as opposed to just statutory audits).
- **Disclosure requirements:** Certain suggested disclosure requirements regarding the work of audit committees in the annual report require further considerations, including:
 - 'an explanation of the application of the entity's accounting policies' - this is better addressed through the routine financial statement disclosures prescribed by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
 - 'where shareholders have requested that certain matters be covered in an audit and that request has been rejected, an explanation of the reasons why' - this requirement seems premature given the UK Government's ongoing considerations on how shareholders engage with the audit process, more generally

We would welcome the opportunity to engage with you directly on our response, please contact me if any further information would be helpful.

Yours sincerely



David Nish
Senior Independent Non-Executive Director and Chair of the Group Audit Committee
HSBC Holdings plc

CC:

Georges Elhedery, CFO HSBC Holdings plc

About HSBC Holdings plc

Our global footprint provides us with an international perspective on the measures proposed in the consultation. By way of context, our operations are in 63 countries with more than 40 million customers and around 219,000 full-time equivalent staff. We have around 194,000 shareholders in 130 countries and territories, and our ordinary shares (or equivalent securities) are listed in London, Hong Kong, New York and Bermuda. We operate through ten principal and material subsidiaries, many of which would be regarded as PIEs under the current UK definitions and have debt or other securities listed in their own right.