

Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

26 September 2019

Dear Sir / Madam

## **COMMENTS ON THE EXPOSURE DRAFT OF UK REVISED ETHICAL STANDARDS 2019**

We have considered the implications of the proposed changes to the Exposure Draft of UK Revised Ethical Standards 2019, in the context of the audit services provided to Unum Limited (a UK PIE Company), its UK parent entity, Unum European Holdings Company Limited and Unum Group, the ultimate holding company in the US.

### **Our comments**

Our comments to selected questions set out in the FRC's Feedback Statement and Impact Assessment are as follows:

#### ***Question 4: Do you agree with the introduction of a permitted list of services which the auditors of PIE audits can provide?***

We agree that *the introduction* of a permitted list of services is helpful. However, there is *ambiguity in relation* the types of services that are described in the list. It would be helpful to provide clarification/examples of services in the list.

We do not agree with the exclusion of certain assurance services from the permitted list of services for EU PIEs. As drafted the revised standard appears to prohibit the auditor of a PIE from performing certain reasonable and limited assurance engagements, for which the relevant standards require the assurance provider to be independent of the organisation that is the subject of the report. We believe that an objective, reasonable and informed third party would consider this to be acceptable. There would also be the potential danger of there being limited choice for Unum Group as potential firms may not be independent under the relevant standards to undertake the engagement. There is also the potential for additional cost where there is an overlap of services.

#### ***Question 5: Do you agree with the additional prohibitions we are proposing to introduce – in learning from the experience of enforcement cases like BHS, if the more stringent PIE provisions are to have a wider application to non-PIE entities, which entities should be subject to those requirements?***

It is unclear to us the objective of the extension of upstream prohibitions to a UK PIE's overseas ultimate parent. Unum Limited's ultimate parent, Unum Group, is a US SEC listed Company, and any of the non-audit services provided to Unum Group or Unum Limited by the statutory auditor or its network firm comply with SEC independence rules which are regarded to be stringent. Furthermore, there have been no instances of non-compliance with SEC independence rules noted in prior years. In addition, there is the potential risk of very limited choice for Unum Group to engage firms with the relevant expertise across the range of services and geographic regions required by a global company due to the proposed independence requirements for the UK PIE.

The application to a parent should, in our view, be limited to a parent "incorporated or formed in any part of the United Kingdom" as drafted in Section 80 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177).

Therefore, we are of the opinion that it is appropriate for Unum Group to continue applying only the SEC independence rules and limit the proposed prohibitions a UK parent in accordance with the EU withdrawal legislation proposed in the UK.

We would suggest that 'parent' is replaced by 'UK parent' in para 5.

***Question 13: We are proposing changes to the standards to be effective for the audit of periods commencing on or after 15 December 2019. Do you agree this is appropriate, or would you propose another effective date, and if so, why?***

The proposed effective date is from 1 January 2020 for Unum Limited with a 31 December year end. The changes proposed, in particular the extraterritorial restrictions on the auditor's network firm providing services to the parent and worldwide subsidiaries is a major change for a group with overseas parent and subsidiaries.

Should these restrictions be retained in the final standard, we will be in the position that the auditor of our UK PIE entity is not independent due to tax services provided by their US firm to our parent company, which are permitted under SEC requirements. We would have very little time to put in place a competitive tender for our UK PIE ahead of the period starting 1 January 2020, and it is likely that the choice of potential alternative auditor would be limited due to other audit firms being unable to meet the UK independence requirements within the required timeframe.

If the extra territoriality in para 5.40B is retained, then we would propose the effective date be delayed by at least one year, and preferably two, to enable the parent auditor to exit services no longer permitted or other UK audit firms to become independent to be able to audit the UK PIE. Therefore, we propose the effective date to be delayed by 1 year, i.e. for audit of periods commencing on or after 15 December 2020.

We also suggest the auditor being able to complete any "in-flight" non-audit services subsequent to the effective date. This will reduce disruptions and avoid additional costs and effort for Unum Limited to reach out to other service providers to complete any "in-flight" services.

We would appreciate your consideration of our comments above.

Yours faithfully

Jon Fletcher  
Chief Financial Officer  
Unum Limited