



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Dear Mr Tanzer

## **EXPLORATION OF NON-PROFESSIONAL OWNERSHIP STRUCTURES FOR AUDIT FIRMS**

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments *Exploration of Non-Professional Ownership Structures for Audit Firms*.

Please contact me or my colleague Pablo Portugal, EU Affairs Manager at the ICAEW EU Office in Brussels ([pablo.portugal@icaew.com](mailto:pablo.portugal@icaew.com); +32 (0) 22303272), should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### ICAEW REP 09/10

#### EXPLORATION OF NON-PROFESSIONAL OWNERSHIP STRUCTURES FOR AUDIT FIRMS

**Memorandum of comment submitted in January 2010 by The Institute of Chartered Accountants in England and Wales, in response to the International Organization of Securities Commissions (IOSCO) consultation report Exploration of Non-Professional Ownership Structures for Audit Firms published in September 2009.**

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## INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on the consultation paper *Exploration of Non-Professional Ownership Structures for Audit Firms* published by the International Organization of Securities Commissions (IOSCO).

## WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

## MAJOR POINTS

### Support for the initiative

4. We welcome IOSCO's initiative to instigate an international debate on non-professional ownership structures for audit firms. We believe this debate should be approached as part of a general reflection not just on the ownership structures of audit service providers but also on the future evolution of audit service provision. The debate should be guided by the aim of establishing the best possible conditions for the long-term sustainability of the audit market in a global environment. Our reflections on this aim take into account the following fundamental elements of the current environment:
  - The interaction between the global nature of business demands and the jurisdiction-specific regulatory environment impacting on audit service providers; and
  - The interaction between the inherent risks in the audit market and the need to ensure a stable supply of high quality audit services for capital markets.

### Regulatory framework

5. Our views are based on the premise that the regulatory framework is a crucial factor in shaping the nature of audit service provision but that it is ultimately the overall interaction of supply and demand forces - ie, auditors and clients respectively - that determines the evolution of the audit market.
6. There is a need for a greater degree of regulatory consistency and coordination among jurisdictions in relation to audit services. The supply of audit services in the international market of large companies is significantly shaped by the fragmented, jurisdiction-specific regulatory framework in which auditors are obliged to operate. Audit services have to be considered in the global context, not least because the largest service providers operate within international structures. The current issues in relation to choice can be seen as global and partly derived from a market perception that only the Big Four providers have the global presence, resources, capability and reputation to undertake specialised assignments, while in

reality some non-Big Four organisations could already be in a position to enhance their presence in the large companies market. If these perceptions are to change, this will be a gradual process.

7. It is possible to identify various supply side and demand side factors that could play a role in shaping the audit market. We believe that addressing issues relating to the regulatory context within which audit service providers operate (supply side) could stimulate a gradual evolution of perceptions by companies and their respective audit committees (demand side). In this response we argue that ownership rules and injections of external capital could have a positive impact on the decision to pursue international expansion but they are unlikely to be the sole - or indeed the main - factor in achieving an increase in the number of providers in the market of large companies. In our view, the various regulatory constraints, perceptions of quality, the 'deep pocket syndrome' and tendering procedures for audit engagements are among the other factors hindering the further engagement of non-Big Four service providers in this market sector. In our view, a regulatory environment that encourages the international growth of audit services providers could be the best possible way to stimulate an increase in the number of service providers with the capacity to undertake large audit assignments.
8. We believe that a relaxation of ownership rules has the potential to provide audit providers with the flexibility to put in place structures that can facilitate growth and international expansion and we support further debate on this approach. We consider other safeguards such as independent audit committees, strong ethical standards and professional qualifications, and a robust system of public oversight and external inspections to be far more important to the preservation of audit quality.
9. We stress that appropriate liability limitation is a key element of a regulatory environment that seeks to encourage growth and international expansion.
10. Although there is much regulators can do, we also argue that it is ultimately market perceptions and behaviour that have to gradually evolve in relation to audit services. This debate should be seen in a long-term perspective. It is likely to take several years for some service providers to achieve the development of capacity and reputation in the market to undertake large audit assignments.

### **Sectoral specialisation**

11. Although an enhancement of choice in the audit market of large international companies would be desirable, we also stress that it is reasonable that the audit market reflects the degree of sectoral specialisation and scale in the economy. It is inevitable that there will be a small number of audit service providers with the capacity to cover the needs of highly specialised global companies. This being said, we observe there is a sizeable sector of companies active in capital markets which could be audited by non-Big Four providers but which currently are not - we believe the debate should be focused on this group of companies.

### **Trans-national organisations and practices**

12. We refer in this document to the audit service providers in question as operating through various legal forms of 'trans-national organisations and practices'. This terminology is used to refer to organisations that can be considered networks according to the definition in the Statutory Audit Directive and those which do not currently meet the conditions of the definition. We draw attention to a study undertaken by the Federation of European Accountants (FEE) on trans-national organisations and practices within the accountancy profession, available at [www.fee.be/fileupload/upload/TOPs%20080409%20Clean184200857160.pdf](http://www.fee.be/fileupload/upload/TOPs%20080409%20Clean184200857160.pdf).

## **RESPONSES TO SPECIFIC QUESTIONS**

**Q1: Should regulators and/or legislators address barriers to entry in the market for large public audit services? Why or why not? Please explain.**

13. We strongly believe that regulators should consider measures that could contribute to increasing the number of players with a capability to compete in the audit market for large companies. Although the shape of the audit services market should be primarily conditioned by the interaction of diverse market forces, the regulatory environment certainly plays a crucial role in shaping this interaction. In this regard, there are various regulatory measures that we believe could establish more favourable conditions for increasing the number of audit providers in this market without distorting competition.
14. We identify a sizeable sector of large companies which could be audited by non-Big Four providers but which are not. This would be the case with a large number of FTSE 350 companies in the UK. The unnecessarily high degree of concentration is not, in our view, an ideal state of affairs when considered in light of the aim of long-term sustainability of the audit market in a global environment. The audit service providers immediately following the Big Four in terms of size and global scale have demonstrated the willingness and capacity to enhance their presence in this market sector; other smaller service providers could also achieve organic growth over time. It should be recognised that this would entail a long-term process, even if the catalysts discussed in this document are pursued. Historically, it has frequently been the case that audit service providers have grown together with a specific client over several years. We reiterate that the various matters discussed in this response represent proposals that could stimulate the gradual evolution of market perceptions, if this is to occur.
15. The unintended withdrawal of one of the Big Four, and the ensuing decrease in choice, would likely have a negative systemic impact on capital markets. The risks should not be seen as negligible. Such a scenario has already unfolded some years ago in relation to a major audit service provider. The current wave of corporate failures and the fragility of various institutions, particularly in key economies, could be seen as heightening the pressures on auditors. Meanwhile, the risks of litigation, including catastrophic claims, are as present as ever. Sustaining confidence should be a public policy priority at all times but more so at a time when its erosion in various sectors of the economy is inflicting severe damage. Given this potentially unstable current status quo, we believe authorities and stakeholders should be pro-active in establishing policies that could prevent a decrease in choice through an unintended withdrawal and stimulate wider competition through the organic growth of service providers.
16. Although there is much regulators can do, it is ultimately market perceptions and behaviour that have to gradually evolve in relation to audit services. This debate should be seen in a long-term perspective. We should not lose sight of the fact that it would probably take several years for various audit providers to achieve the development of capacity and reputation in the market to undertake the largest audit assignments.
17. Whilst we support the case for establishing favourable conditions for increasing the number of audit providers, a degree of concentration and specialisation is observable in various sectors of the economy and it is reasonable that the audit market should reflect this by virtue of the specialisation required to service certain clients. It is reasonable that a limited number of audit service providers would be able to match the needs of the very largest and specialised companies with operations in global capital markets. We refer here to a number of companies as per the FTSE 100 index in the UK or the CAC 40 in France.

**Q2: What are the most significant barriers to entry in the market for large public company audit services?**

18. In the paragraphs below we discuss a number of issues and problem areas which we believe should be considered in this debate. We also draw attention to the report of the Audit Quality Forum (AQF) Shareholder Involvement – Competition & Choice (July 2005) which discussed possible barriers to entry and called for research into a number of aspects of the market. The research subsequently carried out by the FRC confirmed these barriers to be in place. The AQF report is available at [www.icaew.com/auditquality](http://www.icaew.com/auditquality), under ‘Shareholder Involvement’.

### **Regulatory fragmentation**

19. We are of the view that enhancing regulatory consistency and coordination globally would be the best possible catalyst to encourage a number of audit providers to ramp up the scale of their operations to be able to compete in the large companies market. We refer to this concept as ‘growth through internationalisation’. At present, in order to service large companies that are operating internationally, auditors need to navigate through a patchwork of regulatory regimes and jurisdiction-specific requirements. We see this as a ‘disabler’ for the pursuit of international expansion. Only a few trans-national organisations and practices have the resources to put in place a structure which can address the myriad of regulatory requirements across borders which need to be handled to meet the needs of global clients. Other trans-national organisations and practices may potentially be willing to expand their capacity to service large international clients but they might assess there is limited commercial advantage in doing so given the significant challenges and costs involved.
20. In various instances, the costs attached to managing national differences in regulatory requirements in the above areas are likely to outweigh public interest considerations to retain them. The largest audit service providers operating trans-nationally can absorb these costs – although it is recognised it is economically inefficient to do so – but for other providers they constitute a barrier to enhancing their cross-border operations. We believe greater regulatory consistency and coordination would allow providers to achieve economies of scale and deploy their auditors to other jurisdictions, all of which could translate into an overall gain in efficiency and could enable providers to grow on a global scale.
21. Much progress has been achieved in the EU to address the patchwork of regulatory requirements with the enactment of the Statutory Audit Directive, but we still consider the current EU framework sub-optimal to serve in the most efficient manner the increasingly global conduct of business. The burdens derived from regulatory fragmentation are naturally more pronounced in the global sphere in which audit providers operate.
22. A global migration towards clarified International Standards on Auditing (ISAs) would allow international audit providers to achieve economies of scale through harmonisation of manuals and audit methodologies. A set of common auditing standards should be seen as part of a regulatory framework favourable to international growth.
23. The consistent application of a single set of robust ethical standards would also be highly beneficial. In particular, work could be directed towards ensuring that there are not significant variations in the application of the Code of Ethics for Professional Accountants, developed by the International Federation of Accountants (IFAC), across major jurisdictions.

### **Auditors’ liability**

24. Liability risk is a key destabilising factor for audit providers. We welcomed the 2008 European Commission Recommendation on auditors’ liability as a first step to address this issue in the EU. There is however still much legal uncertainty regarding the impact of liability on existing trans-national structures. There have been instances where it has been argued that an entire network should be responsible for matters relating to firms in an individual country, even though these are separate legal entities. The existence of a legal definition of network at EU level has perhaps had the effect of heightening this lack of certainty where the EU is

concerned. We are aware that a number of trans-national organisations and practices are now calling themselves associations and seeking to discontinue arrangements (eg, quality assurance) in order to not be regarded as falling within the definition. Yet in normal business relationships, liability cannot usually cross between separate legal entities unless there are contractual arrangements between the service providing entities and the service recipient. The liability debate has a global dimension and the US should be recognised as a critical player in this regard given its economic importance and the nature of its liability environment. As a multilateral organisation IOSCO could play an important role in stimulating a debate on mechanisms to ensure a degree of consistency and coordination in key jurisdictions in the limitation of auditors' liability.

25. It should be noted that liability considerations might also impact on the willingness of external investors or non-practitioner employees to invest in an audit service provider. Would it be commercially attractive to invest in a business that is not able to effectively limit its liability?

### **Appointment of auditors**

26. It appears to be the case in a number of large companies that changes in the audit mandate do not happen as frequently as they could. In some cases, it has been reported that audit assignments have not been put out to tender for many years. There could be greater encouragement, via corporate governance codes, for more frequent tendering of large audit assignments, although we would not consider that a mandatory rotation period would be the best way to achieve this. Authorities should also encourage more transparency on the part of audit committees in justifying the selection criteria for their auditor. There should be appropriate justification for the assessment of tender proposals in terms of price, fulfilment of technical capacity and other factors considered. It is possible that sometimes audit committees perceive that Big Four audit engagements would be favourably seen by market stakeholders - such market perceptions will evolve only gradually. We are also aware that the contractual obligations of companies may occasionally make reference to the need to appoint a Big Four provider as auditor - this practice should be discouraged. A degree of global regulatory coordination to tackle such practices would be helpful.

### **Definition of network**

27. In the EU context, the Statutory Audit Directive introduced a legal definition of an audit network, which is consistent with that promulgated by IFAC. We have argued that there is a need for greater consistency in relation to the interpretation and transposition of the definition in EU member states. The lack of legal clarity is part of a series of issues that hamper the coordination across borders of trans-national structures. We believe there are high costs of compliance resulting from the interaction of the network definition with differentiated independence requirements across member states. Some small trans-national organisations and practices report that these may negate the commercial advantages of belonging to a network. These problems are exacerbated on the global stage. We recommend that regulators consider mechanisms that could deliver global consistency and coordination in this area.

**Q3: Is increasing the availability of the sources of audit services to large public companies by addressing one of the barriers to entry into the market possible? If so, which one? If not, is addressing several or many of the barriers at one time necessary? If so, which ones?**

28. We believe that priority could be given to measures regarding the appointment of auditors as they are directly relevant to the point at issue and could be implemented in the short-term if there is a concerted effort on the part of global regulators. We also believe that appropriate liability limitation in major jurisdictions, particularly the US, and legal clarity for trans-national audit service providers in this regard would have an important impact on the audit market, potentially encouraging the desired evolution in relation to concentration and choice.

29. We do not think that the issue can be pinned down to one (or more) specific barrier(s) preventing the emergence of new players: the current number of audit providers available to large companies is the result of a historical evolution of market forces, the audit profession and the regulatory environment. We see the measures discussed under Question 2 as beneficial to the audit service provision in light of globalisation, as well as favourable to the objective of enhancing choice in the large companies market.

**Q4: Would expanding the scope of non-practitioner ownership create, alleviate, or remove any threats to the continuity of audit services? Please explain.**

30. In principle, we do not see compelling reasons why expanding ownership to non-practitioners would pose a threat to the continuity of audit services. The opposite might actually be the case. Audit providers of large public companies are part of trans-national networks and multidisciplinary practices offering a wide range of services. Given that liability is generally identified as a key factor threatening the continuity of audit providers, a degree of non-practitioner ownership in the parent entities of audit service providers can serve to provide a capital cushion against auditors' liability risks. Expanding ownership to non-practitioner groups could thus help to alleviate threats to the continuity of audit services. Relaxed ownership rules could, for instance, allow for quicker recapitalisation of a major audit provider in turbulent scenarios. However, this should not detract from the importance of liability reform.

**Q5: Could allowing audit firms the option of broader non-practitioner ownership, including through public sources, assist new competitors to enter the market for large public company audits? Please explain.**

31. We consider that access to external capital, as discussed in the consultation document, is one of several factors that could encourage international expansion. Other important factors are market demand, liability, the regulatory landscape and related compliance costs. A service provider will undertake a holistic assessment of all factors to determine whether there is commercial advantage in pursuing an expansion of its international capability. The comments below should be considered in light of our general view that external capital could be one factor to stimulate growth, or accelerate the pace of growth, but it is no panacea in relation to the debate on choice, nor is it a substitute to crucial factors such as market reputation and relationships with clients, which develop over the long-term.

32. When preparing an international business strategy, an audit service provider will need to take into account the existing capital (primarily from partners) and the additional capital that will need to be procured (primarily from banks). Admittedly, various service providers have argued that capital has been generally available at a reasonable borrowing cost, although it is not clear how the current financial sector environment would affect this. However, in our view there could be a difference between preparing a strategy in this 'traditional' manner and preparing one with a large pool of capital available beforehand from a service provider's shareholders and investors. It is likely that service providers in the latter position would be willing to pursue a more ambitious strategy at a faster pace and take greater commercial risks. There would naturally be more pressure from investors and shareholders to deliver on commercial targets but we do not envisage this would represent as big a change as is sometimes assumed from the strong commercial focus audit providers already demonstrate.

33. In relation to human capital, we concur with the view raised in the consultation document that 'allowing for non-practitioner ownership might enlarge the sophisticated pool of human capital with appropriate technical expertise, such as information technology, financial engineering, or legal services, which could contribute to the quality of services and governance.' Human capital and financial capital are equally important in our view as both are necessary in developing international capability. Auditing could be considered more human capital intensive than capital-intensive (compared to other sectors); however, it is the case that securing financial capital - whether from partners or investors - would be necessary to support the

recruitment of additional human capital to undertake large audit assignments. It is natural for companies to expect auditors to have the infrastructure and human capital already in place when considering tender bids.

**Q6: Would allowing audit firms the option of broader non-practitioner ownership, allow for greater transitional flexibility to constitute a new firm or otherwise provide continuity of audit services in the event that one of the Big Four firms leaves the market?**

34. It is possible that greater flexibility on ownership rules could assist regulators and private stakeholders to set up new entities in case of withdrawal of a major market player, as suggested in the consultation document. However, it is more likely that non-Big Four audit service providers would be well placed to absorb the expertise and clients of the withdrawn entity, and this would be preferable to setting up new entities.

**Q7: How important are the existing ownership restrictions to audit quality? How else do existing restrictions benefit investors and/or promote audit quality? How may audit quality be negatively affected by permitting alternative forms of audit firm ownership?**

35. Ownership restrictions are one of several safeguards in place to guarantee audit quality and we believe that there is scope for exploring a relaxation of ownership restrictions if this can benefit the wider audit market. We consider other safeguards such as independent audit committees, strong ethical standards and professional qualifications, and a robust system of public oversight and external inspections to be far more important to the preservation of audit quality. These safeguards are robust in our view in the EU context, but we recognise that further proportionate safeguards might be needed to avoid specific conflicts of interest in scenarios where non-auditor shareholders constitute a majority in the ownership structure. Service providers should naturally not be permitted to undertake an assignment in case of specific conflicts of interest. It would in any event be in the interest of service providers to manage the market perception of their independence as a key part of the provision of a quality audit service.

36. Trans-national organisations and practices under the partnership model already show a high degree of commercial focus and we do not envisage that the overall modus operandi would change significantly under alternative models. We acknowledge that there could be a limited impact on the management of audit service providers if non-auditors were a majority in the ownership structure. However, the key issue would be the controls in place to safeguard independence and audit quality. We also note that we have not observed among jurisdictions a correlation between the stringency of ownership rules and overall confidence in the audit function (see Question 11).

37. We are in principle open to explore the benefits of public ownership (understood as audit providers being listed on regulated markets, rather than being state-owned) or other forms of investor ownership as we do not think that the partnership mode is indispensable. We do however recognise that the partnership model has a proven record in terms of attracting and retaining human capital. Being an owner or a potential owner of a firm can be a significant driver to achieve quality and to have a long-term career perspective with the firm. Partnership models have been widely deployed in the history of the liberal professions and there is a proven record of servicing business needs. We would also note that the ethos of partnerships has generally been retained in cases where the actual legal forms have evolved.

38. It would be difficult to speculate on the potential benefits and drawbacks of non-partnership models without the evidence of practical experience; we therefore think that models should be allowed to evolve. The effects would be discernable according to market reactions over a period of time. In principle, we see no reason to believe that the other models would affect the ability of audit providers to provide high quality service and recruit the best staff. The possibility

of rewarding staff with share options could enhance retention, as would firm reputation and personal development.

**Q8: What factors other than those set forth above should regulators consider in analyzing whether alternative forms of audit firm ownership and governance should be allowed?**

39. Further to the key points raised in the consultation document, regulators should not lose sight of the fact that audit service providers generally belong to multidisciplinary practices providing a variety of accounting and related services. It is important to take into account the broader trans-national structures in which auditors operate and the overall market perceptions. The legal arrangements of trans-national organisations and practices to which audit providers generally belong vary. The market generally perceives the 'brand' associated with these trans-national organisations and practices. We believe that market behaviour is more significantly determined by factors relating to this 'brand', such as its reputation and perceptions of quality, than ownership structures. Most businesses stand or fall on the quality of their services or goods, not by concerns over their ownership.

40. We refer to the governance of audit firms in our answer to Question 9.

**Q9: Would alternative forms of ownership that include boards of directors with independent members provide a useful reinforcement of auditing firms' public interest obligations and independence? Would other arrangements, such as compulsory charter provisions for audit firms that establish a requirement for partners or directors (licensed or unlicensed) to give due regard to the public interest, be useful?**

41. The Audit Firm Governance Code was published on 18 January 2010 by the independent working group established by the UK's Financial Reporting Council (FRC) and the ICAEW. This new code of governance will apply to eight audit firms that together audit about 95% of the companies listed on the Main Market of the London Stock Exchange. We will be pleased to send you a copy of the Code and the accompanying press release.

42. The Audit Firm Governance Code is the result of a recommendation made by the FRC's Market Participants Group and is primarily designed to serve shareholders in listed companies. The new Code draws on aspects of the Combined Code on Corporate Governance, including the structure of principles and provisions and the comply or explain approach, while recognising that the governance challenges faced by audit firms are different from those faced by listed companies.

43. The Code, which has been prepared on the basis of existing forms of ownership but might be adapted as appropriate for other forms of ownership, establishes the principle that audit firms should appoint independent non-executives within their governance structure. It also establishes a benchmark for good governance for firms operating in the large audit market, codifies much existing good practice and links to matters that audit firms must comply with as regulated professional partnerships.

44. There are numerous references in the Code to the public interest. For example Code Provision C.1.1 states that 'Independent non-executives should either: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.'

45. In addition to helping to enhance dialogue with shareholders in listed companies, the Code is also expected to be helpful to other stakeholders, including:

- directors, particularly audit committee members, with responsibilities for the appointment of auditors;

- regulators with responsibilities for confidence in audit quality; and
- partners and employees of firms.

46. Although we refer to the Audit Firm Governance Code in answer to this question, it may be of relevance to other questions in the IOSCO consultation paper. IOSCO may care to consider these matters after the Code is published.

**Q10: Do audit firm non-practitioner employees have economic incentives more in line with practitioner owners than they would have with outside investors? Should ownership by firm employees who are not practitioners be treated differently from outside owners? Would more permissive non-practitioner employee ownership be likely to affect the firms' capital-raising capacity or otherwise affect barriers to entry for audit firms?**

47. It is difficult to provide a general view on the potential economic incentives of employees and external investors as these are likely to vary according to national auditing environments and the specificities of individual audit providers. The experience in other sectors featuring employee and investor ownership approaches could be a reference in this regard.

48. A more permissive non-practitioner employee ownership regime could be beneficial to audit providers' capital raising capacity and their international growth perspective. Given that audit providers generally operate within multidisciplinary entities, more open and simplified requirements could provide additional flexibility for implementing structures favourable to international expansion. This reasoning would apply also in relation to investor ownership; however, at the present stage it could be seen that a more permissive non-practitioner employee ownership regime would be a first step to test market reactions and assess the impact of relaxed ownership rules.

**Q11: What benefits beyond avoiding additional conflicts of interest associated with non-professional or outside ownership and prohibiting non-qualified professionals from performing audits are realized by existing restrictions on firm ownership?**

49. It is possible that ownership restrictions help to mitigate potential market perceptions, for example a perception that external investors would promote short-term commercial gains at the expense of the public interest considerations that statutory auditors guarantee. We recognise this positive role; market perceptions and overall confidence in the audit function are, after all, of crucial importance. However, such perceptions are likely to vary across jurisdictions and a correlation between market confidence and the stringency of ownership rules has not been observed. In the EU context, for instance, there is no evidence of less market confidence in member states with less restrictive ownership requirements (the Statutory Audit Directive minimum requirement is simple majority ownership). A relaxation of ownership rules is therefore worth considering as we believe that it has the potential to deliver benefits to the audit market, whilst the potential additional risks could be minimal if a strong auditing environment is in place and other safeguards are appropriately implemented.

**Q12: Could existing safeguards appropriately mitigate concerns regarding competence, professionalism, audit quality and independence if auditing firms were more broadly owned by non-practitioners?**

50. Existing safeguards such as independent audit committees, strong ethical standards and professional qualifications, and a robust system of public oversight and external inspections, where appropriately implemented, are crucial to mitigating such concerns.

**Q13: What level of non-practitioner ownership should concern regulators, and what level should be considered *de minimis*? Is a securities regulatory model for reporting beneficial ownership useful for this purpose?**

51. In the EU context it is required that a majority of voting rights be held by approved audit providers or natural persons who satisfy conditions stipulated in the Statutory Audit Directive; some EU member states apply more restrictive thresholds than those stipulated in the Directive (the UK applies the Directive's simple majority threshold). We believe there is potential for relaxing the simple majority threshold in the EU as a member state option and we would support further debate on this approach.

**Q18: What is the likelihood that potential new entrants would take advantage of opportunities for broader non-practitioner ownership, either in the near term or long term?**

52. We consider that the relevant market stakeholders are better placed to opine on this issue.

**Q19: What is the likelihood that one or more of the Big Four firms would take advantage of this option? Were one or more such firms to do so, would the access to additional capital potentially strengthen the firm's capital cushion, thus reducing the likelihood that the audit services market would be further concentrated? Conversely, could this increase concentration, as large firms solidified their market share?**

53. We consider that the first question should be considered on the basis of views provided by the auditing organisations in question.

54. As previously noted, access to external capital could strengthen an organisation's capital cushion, thus facilitating its recapitalisation in turbulent situations.

55. A relaxation of ownership rules could be beneficial to all auditing organisations and particularly those with an international growth perspective. Whilst we believe that this policy is more likely to create possibilities for increasing the number of players in the large companies market, an intensification of concentration cannot be ruled out as a possible market reaction. In any event, the merits of this approach should be assessed in relation to the broader objectives of long-term sustainability of the audit market and the continuity of high quality audit service provision.

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