



Catherine Woods
Financial Reporting Council 8th Floor
125 London Wall
London
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9 December 2015

Dear Catherine,

AFM Response to FRC Consultation on Enhancing Confidence in Audit

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Comment on the proposals and highlight the consequences for mutual insurers.
2. The Association of Financial Mutuals (AFM) represents 47 member companies, and in most of our member companies, customers present and future are the owners of the business. Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £16.4 billion, and employ nearly 30,000 staff¹.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses.

¹ ICMIF, <http://www.icmif.org/global-mutual-market-share-2013>

4. AFM is pleased to make a short number of comments on the consultation, representing our members' interests as users of audit services. Most of our members are within the definition of PIEs adopted by the European Union, where they are in the scope of the Solvency 2 Directive, and from the effective date of 17 June 2016.
5. It is currently a condition of membership of AFM that our members seek to comply with the annotated version of the UK Corporate Governance Code (and PRA's new rules on board responsibilities reinforce most of the principles in the Code). We continue to see very high levels of compliance with the section of the Code relating to accountability, and are content therefore that there is a positive approach to maintaining high standards of audit and transparency in our sector.
6. On the whole therefore many of the proposals are already actively incorporated into the audit approach of our members, via their adherence to the Code. That said, as it appears BIS has yet to determine whether requirements relating to PIEs will have retrospective impact, our expectation is there will be some uncertainty in the market on how new requirements come into effect. For example, recent advice from BDO is "Audit tenure is calculated from the time the entity becomes a PIE entity so that auditors of newly classified PIEs won't need to tender for a further 10 years". We suggest FRC therefore addresses this issue clearly, adopts effective proportionality in the application of new rules, and provides sufficient transition time.
7. We have responded to the Prudential Regulatory Authority on CP34/15, covering requirements for the audit committee under section 39 of the Statutory Audit Directive. We note the general alignment between the various regulators in this area.
8. As regards the proposed change to the UK Corporate Governance Code, we agree with the change proposed to Code provision 3.1, substituting the term 'competence in accounting and/ or auditing' for 'recent and relevant financial experience'. We propose to make this amendment to the annotated Code in 2016, where the next formal review of the FRC Code takes place, as our members will in any event seek to comply with this requirement via the PRA's own requirement to demonstrate this.
9. Our main concern with the proposals is that the new ethical standard will inevitably reduce the supply of audit services, as small local audit firms may not be able to meet the higher standards. We would expect this to reduce choice for smaller mutuals, and increase costs.

Similarly, where Appendix 1 provides a useful summary of changes to auditor reporting, we consider these will increase costs to firms.

10. We thank FRC for the work it has done in increasing awareness of the changes in auditor reporting. We have alerted our members, who in turn will be better prepared to discuss with their auditor the changes and any subsequent increase in fees.

11. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,

A handwritten signature in black ink, appearing to be the initials 'AB' followed by a stylized flourish.

Chief Executive
Association of Financial Mutuals