Comments Received in response to Consultation Reports on Issues Pertaining to the Audit of Publicly Listed Companies

Comment Letters

TECHNICAL COMMITTEE
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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CONTENTS

Introduction

IOSCO, as the worldwide association of securities regulators dedicated to enhancing investor protection and promoting investor confidence in the integrity of the securities markets, has long had an interest in the quality of audits of the financial statements of publicly listed companies. Audited financial statements are intended to increase the confidence of investors that they are receiving accurate and complete information on the financial performance of listed companies and high quality audits are therefore an important contributor to investor confidence in the capital markets.

Background

In May 2007, the IOSCO Technical Committee, in cooperation with the Autorite des Marches Financiers in France, sponsored a Roundtable on Audit Quality. Participants from the public and private sectors representing a wide range of stakeholders in the capital markets were invited to participate. In a series of panels, speakers presented remarks and supplied papers on numerous subjects relating to the quality of public company audits and the value of audits in the markets. The transcript of this Roundtable is available on the IOSCO public website at www.iosco.org.

In mid-2008, the IOSCO Technical Committee decided to pursue three areas of inquiry selected from the subjects that had been raised in the Audit Quality Roundtable. These three areas concerned communications that auditors make to the public and to others about findings in the audits they conduct of the financial statements of publicly listed companies (auditor communications); communications that audit firms make to the public and to others about their own internal firm structure, governance, audit quality control and operations (auditor transparency); and whether any changes should be made in the prevailing form of private professional partner ownership of audit firms in the interest of promoting audit quality and increasing the choices of audit firms for public companies (auditor ownership). Each of these three areas of inquiry was the subject of a Consultation Report issued by the IOSCO Technical Committee for public comment in late 2009. The comment period for the Consultation Reports closed on 15 January 2010; however, the Consultation Reports continue to be available on the IOSCO website at http://www.iosco.org/library/index.cfm?section=pubdocs.

Next Steps

During 2010, the Technical Committee's Standing Committee 1 (TCSC1) has been reviewing and considering the views of parties submitting comments in response to the Consultation Reports. As part of this work, TCSC1 prepared this Summary to accompany its release of the comment letters so that others with an interest in these subjects may more easily benefit on a timely basis from the views and information provided.

Readers of the Summary will note a considerable diversity of views among the responses, both within stakeholder groups and across stakeholder groups. Further, relatively few responses were received from investors. As further described herein, TCSC1 is currently undertaking additional outreach activities on the subjects of auditor communications and auditor transparency. TCSC1 is not planning more investigative or analysis work on auditor ownership.

Chapter 1 Auditor Communications

The Technical Committee of the International Organization of Securities Commissions (IOSCO) Consultation Report on Auditor Communications was issued on 9 September 2009. Over the course of the following months ending in January 2010, twenty-two comment letters were received. Sixteen of the comment letters were from accounting and auditing professional firms and organizations, including an international audit standard setter; three were from auditor oversight bodies and securities regulators; and three were from investor/user/corporate investment organizations. Highlights of the comments received are included in this summary. The comment letters are posted on the IOSCO website at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD316.pdf.

The 2009 Consultation Report explored the evolution of the standard audit report and developments in Europe, North America, Australia and Asia. Subjects discussed included the perceived shortcomings that some market stakeholders have expressed regarding the current standard audit report in terms of meeting the needs of financial statement users, and raised a number of questions to be considered in assessing whether changes should be made in present practices. The Consultation Report also discussed possible alternatives for changing the standard audit report and advantages and disadvantages of each alternative. The Report concluded by requesting public comment regarding the usefulness of the standard audit report and whether it should be changed, and issues that would arise if the standard report were to be changed or supplemented in some way with additional information provided by auditors.

The comment letters indicate many differences in views on several of the substantive issues involved, not only among different groups or categories of stakeholders, but also within particular groups of stakeholders. The range of such views is described in this Summary.

However, despite the diversity of views among respondents, there are were two similar points or messages in comment letters that received broad support. These are as follows:

- Support for collaborating toward a global approach;
- Recommendation that IOSCO, the IAASB, and any other parties pursuing the subject of auditors' reports consider the studies and other work of international organizations.

In addition to the above, a number of respondents in both the audit profession and user categories noted that the nature of auditing is not widely understood by users of audit reports and suggested that educational and informational materials be developed. One commenter suggested that such communication might best be promulgated by a body that is demonstrably independent of standard setters and the major auditing networks.

Views of Audit Profession Respondents

On the question of whether the current standard auditors' report is useful to investors and if not, why not:

- A majority of respondents believe the current standard auditors' report is useful. Prevailing views expressed include the following points:

- The report communicates a clear opinion to investors in a recognized form;

- The standard audit report achieves its stated purpose, which is to express clearly the auditors' opinion on the financial statements and to describe the basis for that opinion, by articulating the scope of the audit, the respective responsibilities of management, and of the auditor, and the audit opinion;

- The audit report is necessary for investors as it provides them with an opinion on the historical financial information of an entity at a set point in time that can be used to build their forward looking projections; and

- Many commenters would support further study and debate as to whether auditor communications could be improved.

On the question of whether investors would prefer a more concise auditors' report, and if so, why:

- Audit profession respondents generally did not express definitive views on this issue;

- Some noted that the trend seems to be toward desiring more information, not less, in the report;

- Others noted that removing some of the standard language might make it easier for readers to see the specific opinion relating to the issuer; and

- Many respondents referred to the International Audit and Assurance Standards Board (IAASB) project on this subject that is now underway, and said it was premature to try to answer this question until the IAASB does more work in this area.

In regard to the question of whether investors are receiving information about the audit that they need to make informed investment decisions, and if not, whether management or the auditor should provide this information:

- Respondents from the audit profession expressed comments ranging from the belief that investors are receiving enough information about the audit that they need to make informed investment decisions, to views that the matter needs more study and debate, or work by the IAASB, to determine whether investors are receiving information about the audit that they need, to a belief that any lack of information that exists should be fulfilled by management in the entity's reporting;

- Some audit profession commenters noted that it is important to distinguish between information that users feel they need to assess the quality of the financial statements and the information that users feel they need to assess the quality of the audit process. These commenters are not of the view that the same information and the same information flow should be equally available to all parties, as different parties have different interests;

- A number of audit profession commenters expressed the view that auditors are responsible for expressing an opinion on the historical financial statements. To the extent there is an information gap regarding uncertainties, judgments, and risks underpinning the financial statements, it is the role of management and those charged with governance to make this information available to investors in accordance with the financial reporting framework. In the view of these audit professionals, it is not the role of the auditor to communicate such information and thus the auditors' work and auditors' report should not be used for this purpose;

- Audit profession commenters also stated that management and those charged with governance are in the best position to provide the additional information that some users and investors are requesting;

- Some audit profession commenters expressed concern about exploring a requirement to publicly disclose communications historically provided by auditors only to those charged with governance, as it may lead to less forthright and transparent dialogue between the auditor and those charged with governance, with potentially negative consequences for audit quality;

- A small number of audit profession respondents commented that IOSCO should not be responsible for setting auditing standards and encouraged IOSCO to use its existing channels to the IAASB and leading domestic standard setters to address any concerns or proposals regarding auditor communications. These commenters would not support an alternative recommendation to IOSCO member bodies on auditor reporting;

- Many of the audit profession commenters stated that more study and debate among all stakeholders (not just investors/users) will be critical before concluding on the issue of the auditors' report or recommending any changes to the auditors' report;

- A few audit profession commenters observed that International Standard of Auditing 700, *Forming an Opinion and Reporting on Financial Statements*, (ISA 700) has recently been updated and has yet to come into force to allow the new reporting to be evaluated by users. As such, these commenters do not see a need at this time to either innovate in terms of auditor communication, or to revise the existing audit report. In addition, some of these commenters recommended global adoption of ISA 700 to support global consistency and understanding; and

- One audit profession commenter noted that it would be useful if investors could receive additional information about the company's internal controls as included in the management letter as well as an auditor analysis of the company's risks through annual reports or other documents that are publicly disclosed but not as a part of the standard audit report.

In regard to whether any new or revised information should be provided by auditors (e.g., an auditors' analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditors' discussion and analysis of their independence and the work performed, etc…) and what legal, regulatory and practical challenges would be involved—commenters from the audit profession voiced numerous concerns, as follows:

- Two auditor commenters noted that the utility of additional information in the auditor report could diminish over time if there was a trend toward standardized or boilerplate language;

- One auditor commenter noted no studies have been performed to survey the impact of the additional paragraph on investors' decisions;

- A significant number of commenters noted that prior to effecting any changes a full cost benefit analysis should be undertaken of additional reporting requirements. Some comments provided include:

    - In many cases the comfort desired by users would not meet the additional cost benefit tests under such an analysis;

    - Audit profession members also observed that prospective information in documents such as analyst briefings and quarterly and half-yearly financial highlights cannot be covered effectively or cost efficiently by an audit or assurance engagement and auditors would thus have difficulties in providing a useful opinion on such information;

    - For information on the audit process specific to an engagement, it may be neither feasible nor practical (cost may exceed any expected benefits); and

    - Auditors commented that increasing the emphasis of fraud in auditor communications beyond ISA 240, *The Auditors' Responsibilities Relating to Fraud in an Audit of Financial Statements*, through changes to wording in the audit report would ultimately lead to significant changes in the current audit model and significant increases in costs of audit and in auditor liability, or would impact the expectations gap further.

- A few commenters expressed concern that auditor liability for additional information (i.e., forecasted information, forward-looking information, increased use of judgment) must be considered.

In response to the question as to whether there are any alternative mechanisms for investors to receive this information without encountering these challenges (e.g., instead of new or revised auditor communications, developing mechanisms such as new or revised disclosures by management or those charged with governance):

- A number of audit profession commenters expressed the opinion that preparers and issuers should consider which other information could be made public for the benefit of investors without harming the operational, commercial and other interests of the entity. Subsequently the auditor can be asked to report on the quality and transparency of these additional management disclosures;

- One auditor commenter noted that if the new or revised communications are outside of the audit report, regulatory mechanisms would need to be established to enable the auditor to communicate to users and to set the liability regime for such communications; anf

- One auditor commenter suggested that informal communications between the shareholders and the auditors is the most appropriate forum for the disclosure of additional information (e.g., shareholders in the UK question the auditors at the annual general meeting).

Views of User/Investor Groups, Oversight Bodies and Regulator Respondents

As only a small number of responses were received from user/investor groups, auditor oversight bodies, and regulators, their views are presented in this combined category. The views of these stakeholder groups, while presenting a number of mixed thoughts, were largely in sharp contrast with the views of parties from the audit profession.

In regard to the question of whether the current standard auditors' report is useful to investors and if not, why not:

- Two of the three investors and one securities regulator expressed the opinion that the standard audit report is not useful to investors;

- One of these investor organizations said that the usefulness of the standard audit report is undermined by the use of boilerplate language, excessive use of statements relating to auditor liability limitation, and the binary nature of the audit opinion;

- The second investor organization criticized auditor reports as being "a defensive outline more of what the auditor does, and indeed, does not do" and stated that "through such poor reporting to investors, they are invited to expect nothing of value from an audit." This commenter went on to say that "the audit report needs to highlight the positive value that an audit brings for investors … we would welcome reports that were worth reading because they give us shareholders some insight into our company and into the quality work which the auditors have carried out;
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- The third investor organization expressed the view that "the existing standard auditor report is to some extent useful for institutional investors since it offers investors an impression of the auditors' view of the financial statements and the basis for that view," but also commented that the audit report could be much more valuable for investors. This investor organization suggested that the report should include further information on the audit process (what the auditor actually did), the quality of the financial information (level of conservatism in management accounting decisions, analyses of risks);

- An auditor oversight board commenter said “we believe a standard audit report is useful to investors and a change from a binary (pass/fail) model may be confusing to investors and make it more difficult to understand whether financial statements achieve fair presentation in accordance with an accounting framework. Later, this commenter stated “we believe it would be worthwhile exploring the potential disclosure of additional information about the audit by the auditor outside the standard audit report. For example, disclosure of the more significant audit risks and related audit responses as well as other information related to the scope, conduct, and outcome of the audit;”

- One securities regulator expressed the view that “the information provided in the standard audit report especially the auditors’ opinion is very useful and important to investors and other stakeholders in making their decisions. The standard audit report helps users to understand auditors’ communication easily rather than non-formatted communications; and

- All investor commenters expressed the view one way or another that it would be helpful if further information about the audit process and the quality of the financial statements could be included in the audit report.

On the question of whether investors would prefer a more concise auditors’ report, and if so, why:

- Mixed views were expressed but in general there was some support for reducing the content of an audit report that is generic for all audits and for making the report more focused on the entity under audit. Suggestions were made that generic information could be provided separately; and

- One investor commenter observed that “a more tailored report that for instance reflects the judgments by the auditor throughout the audit process may enable investors to better understand the financial statements and the performed audit” and also said “the possibility to include findings on specific reviews called for by the investors ... would facilitate a steep increase in the informational value of audit opinions.”

In regard to the question of whether investors are receiving information about the audit that they need to make informed investment decisions, and if not, whether management or the auditor should provide this information:

- One investor and one regulator agreed that some information gaps should be filled by management rather than auditors, but stressed that auditors should be more willing to attest to (1) the content of certain information issued by a company that is currently not within the scope of the audit and (2) its fair presentation. These commenters noted that investors and other users should be offered more information on the auditors’ work on risk management, risk monitoring as well as relevant sensitivity analyses;

- Two regulators expressed the opinion that it would be “worthwhile to explore the potential disclosure of additional information about the audit by the auditor outside of the standard audit report" (e.g., disclosure of the more significant audit risks and related audit responses as well as other information related to the scope, conduct and outcome of the audit);

- One regulator expressed concern or caution for exploring a requirement to publicly disclose communications historically provided by auditors only to those charged with governance as it may lead to a less forthright and transparent dialogue between the auditor and those charged with governance with potentially negative consequences for audit quality;

- One investor expressed a need to ensure that any additional disclosures are largely derived from the work which auditors are already doing; this will help to ensure that any improvements proposed by IOSCO will not result in an unreasonable cost burden on the issuer. IOSCO should ensure they take a robust approach to challenging claims by audit networks for additional fees;

- An investor commenter noted that the cost of more communication should not become excessive, however investors ultimately pay these costs … it is for them to worry about "the bill;" and

- Two investor respondents highlighted a desire for more enhanced disclosure from management and the audit committee, and suggested that IOSCO should promote and foster the development of guidelines to assist issuers and others in respect of providing information that is not currently included within the scope of the audit.

In regard to questions as to what any new or revised auditor communications should address and in what form (e.g., an auditors' analysis of risks and other findings in an audit, a report on the quality of an issuer's financial reporting, an auditors' discussion and analysis of their independence and the work performed, etc) and what legal, regulatory and practical challenges would be involved:

- One investor commenter urged IOSCO and other regulators to be responsive to the conclusions of the UK working group. Another investor expressed support for the proposed Audit Firm Governance Code and believe this will go some way to improving the dialogue between auditors and investors on non-company specific matters;

- One investor commenter noted that IOSCO should, in tandem with any recommendations for improving auditor communications, promote and foster the development of guidelines to assist issuers and others in disclosing and reviewing non-financial information that is useful for investors and is not currently included within the scope of the audit;

- However, one investor commenter cautioned that in considering to what extent additional auditor communications are needed users' interest should be the primary objective;

- One investor commenter noted that asking auditors to make more of a qualitative statement on the audited entity's reporting would provide investors with real value which would not be diminished over time provided that the willingness of auditors to make professional judgments was not diminished over time**;**

- The majority of investors and regulators expressed the view that there are or could be legal and practical challenges depending on the nature of the additional information and the jurisdiction in which the issuer and auditor operate (i.e., client confidentiality/privacy laws, auditor communications to audit committees is under EU legislation and is not intended to be published, is confidential, and cannot necessarily be published by the entity itself);

- Two investor commenters encouraged IOSCO to seek to find ways to enable improvements to be made rather than regarding any legal or practical challenges as immovable impediments to progress. These commenters expressed the view that the benefits will outweigh the potential legal, regulatory, and practical challenges;

- One investor commenter expressed the view that they do not believe there are any legal, regulatory or practical challenges to auditors providing investors with enhanced reporting but rather the barrier will be in the form of professional will among the auditing profession to make more apparent the value which its work brings; and

- Further, one investor commenter noted that they are no longer inclined to regard auditor liability reasons as legitimate in defending the status quo of the standard audit report.

In addition, some respondents from Europe noted that ISA 700, *The Auditors Report on an Audit of Historical Financial Statements*, and related auditor reporting ISAs revised in the IAASB Clarity Project had just come into force in 2009, and encouraged IOSCO and other parties to utilize experience that might be gained in the application of these new ISAs.

Current Status of IOSCO Plans and Activities

The views of all stakeholder groups are important and relevant input to inform consideration of the issues involved in the Consultation Papers. As relatively few responses were received from investor and user groups, TCSC1 plans to carry out additional outreach activities with users and investors on the subject of auditor communications. Further exploration of how auditor communications might practically provide greater value to investors will be carried out with members of the audit profession as well. Utilizing what is learned, TCSC1 expects to develop further information on the issues and alternatives involved for the matters raised in the Consultation Paper and in conjunction with the Technical Committee determine how to best utilize that analysis. As part of its normal course of activities, TCSC1 will also continue to monitor ongoing developments and activities of parties studying auditor communications and engage in dialogues with such parties as appropriate.

Chapter 2 Transparency of Firms that Audit Public Companies

The IOSCO Consultation Report on Transparency of Firms that Audit Public Companies was issued on 9 September 2009. Over the course of the following months ending in January 2010, twenty-one comment letters were received. Fifteen of the comment letters were from accounting and auditing professional firms, individuals and organizations; five were from financial reporting and auditor oversight bodies, securities regulators and banking supervisors; and one was from an investor/user organization.

Highlights of comments received are included in this summary. The comment letters are posted on the IOSCO website at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD339.pdf.

The 2009 Consultation Report explored issues related to the potential effects of enhanced transparency achieved by reporting additional information about audit firms, specifically whether such transparency would improve audit quality and the availability and delivery of audit services. The Report included examples of current transparency reporting in a number of countries around the world, both mandated and voluntary reporting, and explored what types of disclosures might be considered with respect to audit firm governance, audit quality indicators, audit firm financial data and other types of information. The Report asked whether such reporting might be useful and if so, the risks and benefits associated with such reporting, as well as parameters and alternatives for reporting to the public and/or regulatory bodies. The Report also asked if a definition of audit quality is necessary to evaluate audit quality, or if audit quality can be evaluated from an understanding of attributes, behaviors, and indicators of audit quality.

The comments received provided a mixture of views on most topics, with most audit professionals commenting on the lack of any connection between transparency reporting and audit quality and also commenting on numerous problems and negative consequences that auditors believed would be associated with reporting key performance measures. In contrast, one individual audit professional believed that transparency reporting on performance measures would drive greater attention to audit quality and contribute to enhanced audit quality. Many audit profession commenters expressed support for some transparency reporting that focused on audit firm structure and governance.

Most investors, audit oversight bodies, and banking and securities regulators expressed views that increased transparency reporting should be an obligation of audit firms and that such reporting could have direct or indirect benefits, including a favorable impact on audit quality.

In general, all parties believed that defining audit quality would be challenging or impossible, and that it was not necessary to have a definition to address the factors that would contribute to audit quality. Users/investors, regulators and oversight bodies expressed greater support for the idea of trying to measure audit quality, although they also expressed comments about the need for caution and additional study in considering performance measures.

Respondents in all categories noted that Article 40 of the European Union Statutory Audit Directive prescribes certain transparency reporting, primarily focusing on audit firm structure, governance, and quality control practices. Commenting that these requirements had only recently come into force, several respondents expressed the belief that an evaluation of experience with Article 40 reporting should precede consideration of any additional transparency reporting measures.

Views of Audit Profession Respondents

Respondents to the Consultation Report from the audit profession, i.e., individuals and firms that have conducted audits of public companies and organizations that represent such audit professionals, expressed support for some but not all types of audit firm transparency reporting discussed in the Report. These respondents cited requirements already existing in some jurisdictions and voluntary practices of some firms, and potential benefits of greater transparency in one or more areas, but most of these respondents said they did not see a connection between transparency reporting and audit quality and did not believe that enhanced transparency reporting would enhance the availability or delivery of audit services.

In regard to transparency reporting related to audit firms' governance, operations and performance:

- Audit profession commenters broadly supported transparency reporting related to audit firm organization and governance, to make the structure of the firm more transparent to stakeholders, but had mixed views on transparency reporting of audit firm operational metrics and performance statistics that might serve as audit quality indicators, especially with respect to public reporting of such information;

- A number of audit profession commenters expressed a view that any transparency disclosures to the public should be modeled after Article 40 of the European Union's Eighth Company Law Directive;

- The majority of audit profession commenters expressed concerns about reporting indicators of audit quality, particularly public reporting, citing such problems as subjectivity, a potential lack of comparability, the possibility that the general public would misunderstand the information, and potential behavior that would detract from audit quality. However, one individual who previously worked in the audit profession suggested that reporting of items indicative of audit quality indicators such as workload, turnover, supervision and other indicators would create the opportunity for the market place to influence the large firms to strike a better balance between fees, profitability and operational metrics which should improve audit quality; and

- Some audit profession respondents also noted that reporting of such items as employee workload could conflict with legal privacy restrictions in some countries, although it was unclear in those letters if the commenters had in mind the high-level firm-wide statistical data that was intended in the Report discussion of such measures, or were instead thinking of information that might identify specific individuals or audited entities (which was not intended).

In regard to transparency reporting of audit firms' financial statements:

- Transparency reporting of financial statement data for audit firms received mixed reactions from the audit profession, with some commenters noting that such reporting was already required and standard practice in their jurisdictions, but others warning that providing detailed audited financial statements of audit firms to the public would be detrimental to the goals of sustainability and competition. One opponent of public financial statement reporting warned that public disclosure of an audit firm's financial resources could encourage increased litigation if plaintiffs perceive audit firms as having "deep pockets"; and

- Some audit profession commenters who were opposed to public reporting of financial statements expressed support for reporting such information to regulators and oversight bodies.

In regard to voluntary versus mandatory transparency reporting:

- Several audit profession respondents expressed the view that, with respect to items to be reported, mandatory reporting was preferred instead of voluntary reporting;

- However, one audit profession commenter stated that "disclosures need not be mandatory because audit firms currently have significant incentives, including reputational, to disclose various governance measures publicly";

- Audit profession commenters also tended to support reporting to regulators and oversight bodies more than reporting to the general public, expressing views that regulators and oversight bodies would be more able to understand the issues underlying such reporting than would investors and users. One commenter noted that many of the disclosures referenced in the Consultation Paper are already required to be provided confidentially to regulators as part of the inspection process;

- One audit and accounting professional association commented that, "while supporting the IOSCO initiative, we do not consider that further mandatory transparency requirements will impact significantly on either audit quality or the availability and delivery of audit services." This organization called for further research, drawing on the use currently made of transparency reporting emerging from the reporting of oversight bodies and other empirical data, to assess whether shareholders use this information in circumstances where audit quality is an important element in decision making.

Views of User/Investor Groups, Auditor Oversight Bodies and Regulator Respondents

Because only a small number of responses were from these stakeholder groups, the views of these parties are presented in this combined category.

In regard to transparency reporting of audit firms' governance, operations and performance:

- In contrast to the views expressed by most audit profession respondents, user/investor groups and auditor oversight bodies and regulators expressed support for the full range of transparency reporting discussed in the Consultation Paper, including indicators of audit quality. Caution was expressed, however, regarding the need to have consistency in data reported and to ensure that the data is interpreted appropriately. A European user/investor organization stated that transparency applied by audit firms could contribute to an environment in which audit firms compete not solely on factors such as reputation, size and audit fee. This respondent further commented that disclosure requirements could sharpen the focus of audit firms on important aspects of quality control and that only with disclosure would it be possible to compare quality measures between audit firms;

- A European oversight body stated the belief that increased transparency is an important driver of audit quality and noted that it seems contradictory that auditors, whose role helps to ensure appropriate transparency of audit clients, should be less transparent themselves;

- Respondents expressed the view that a definition of audit quality would be difficult to achieve and supported focusing instead on drivers of audit quality; and

- European commenters noted the recent provisions in the EU Statutory Audit Directive regarding structure and governance reporting as current requirements for consideration.

In regard to transparency reporting of audit firms' financial statements:

- One regulator commented that the audited financial statements of audit firms may not provide useful information regarding audit quality but it would certainly provide greater transparency, increase discipline, and help build accountability and trust.

In regard to voluntary versus mandatory reporting:

- Most commenters favored mandatory reporting and noted the importance of regulatory review and consistency; and

- One European user/investor group, after citing the EU Statutory Audit Directive commented that "further initiatives on disclosure should be approached carefully, as the effectiveness of the existing disclosure framework has not been evaluated yet." This respondent further suggested that "if it is decided to provide enhanced transparency of audit firms, we suggest encouraging further disclosure by non-binding recommendations first."

Current Status of IOSCO Plans and Activities

As TCSC1 continues to consider the inputs received in comment letters, TCSC1 is collecting additional information on the current auditor transparency reporting practices of TCSC1 member jurisdictions and the experiences relating thereto. This information will be used to inform TCSC1's considerations of what it may recommend to the Technical Committee for any actions it might take within its membership and/or in conjunction with initiatives of other regulatory organizations and oversight bodies. Further, as part of the normal course of its work, TCSC1 will continue to monitor international developments with respect to audit firm transparency reporting.

Chapter 3 Exploration of Non-Professional Ownership Structures for Audit Firms

The IOSCO Consultation Report on Exploration of Non-Professional Ownership Structures for Audit Firms was issued on 9 September 2009. Over the course of the following months ending in January 2010, sixteen comment letters were received. Thirteen of the comment letters were from accounting and auditing professional firms and organizations, two were from auditor oversight and licensing board organizations, and one was from an investor/user organization.

Highlights of comments received are included in this summary. The comment letters are posted on the IOSCO website at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD338.pdf.

The 2009 Consultation Report explored concerns related to the existence of a high degree of concentration in the market for audit services to large public companies, and whether and to what degree barriers to entry, including audit firm ownership restrictions, might be contributing to this concentration. The Report raised a number of questions as to whether expanding the allowable forms of ownership and permitting non-practitioner ownership of audit firms would assist new competitors in entering the market for audit services or otherwise contribute to availability and continuity of audit services, thereby increasing audit choice for large public companies. The Report asked about the effect of ownership restrictions on audit quality, and if there are other ways to address audit firm concentration and concerns about the availability of services to large public companies, and other questions relating to potential effects on audit choice and investor protection.

Views of Audit Profession Respondents

Most respondents expressed views that permitting or increasing non-professional ownership of audit firms would not increase choice in the audit market for large listed companies, nor would such action enhance the availability and continuity of audit services, although one auditor professional body said that making such changes might reduce audit firm concentration. Some of these respondents stated that market forces ought to govern the market for large public audit services, and expressed doubt that it would actually be possible for regulators or legislators to address barriers to entry in the market for large public audit services in an effective manner or expressed the view that historically regulatory intervention has already had an indirect impact on market structures and consequently on the number of market players. Other specific comments offered by audit profession respondents included the following:

- One audit firm that is not one of the "Big Four" stated that the critical issue with respect to concentration stems from the buy side and not the supply side — that is, market misperceptions about the capabilities of non Big-Four firms, which can lead to contractual provisions that prevent or restrict such smaller firms from competing for audits;

- Another commenter observed that financial capital may play a certain role but is not regarded as a key factor for increasing choice in the audit market and noted that auditing is not a capital-intensive activity, but a human capital intensive one;

- One respondent observed that where audit firms are already able to have a substantial minority of their capital held externally, there has been little take up of this option and also noted that through the consolidator model, firms which include an audit practice can already be effectively majority-owned from outside; and

- One respondent from a "Big Four" audit firm stated that they would not reject the possibility of raising additional capital from non-practitioner sources but also said that for the time being partner capital is sufficient.

Many of the audit profession respondents stated that regulators and legislators need to address regulatory and other barriers to expand choice in the large public company audit market. Examples of factors cited as having an impact included auditor liability regimes and independence requirements, overlapping audit oversight regimes, a need for simplification and harmonization in all kinds of regulation, along with varying requirements for education, training, licensing, regulation and quality control. Many respondents commented on the need for convergence towards a single set of high quality auditing and independence standards across jurisdictions. It was also suggested that measures which do not necessarily require regulatory intervention could be considered, for example, stronger governance principles regarding the role of audit committees in selecting the external auditor, and transparency of tendering procedures with a view to ensure that smaller firms are not prevented from competing.

Commenters from the largest global audit firms stated that market related barriers have to be considered by those who want to enter the market for auditing large international companies, citing such factors as the need for major global companies to have auditors that are members of a network that has a global reach and the fact that the existing networks of large firms already have systems, controls, and methodologies in place that enable them to move swiftly to audit large international public companies. The large firms also cited the need to build an international brand/reputation and the high upfront investments in training methodology and software as well as human capital needed to support the delivery of services to sustain the brand and reputation. They observed that investors and lenders generally prefer to use the large networks of firms because of their perceived strengths and that the large networks of firms are often judged best placed financially to meet claims.

Audit profession respondents expressed concerns that allowing non-professional ownership could have negative consequences on quality of audit services and/or on public perception of auditors. One commenter stated that, in theory, allowing firms the option of broader non-practitioner ownership may assist new competitors to enter the market. However, investors may desire only to invest in capital raisings of well established, large firms incumbent in the market and it is therefore possible that an ownership policy change could reinforce the position of the larger audit firms and increase, rather than reduce, firm concentration.

One large global audit firm observed that an extension of non-professional ownership may lead to independence issues, which unless properly addressed, may cause a reduction of choice for audit clients and, as a consequence, restrict rather than enhance competition in the market for audit services.

Audit profession commenters recommended that IOSCO commission independent research before any policy changes are considered.

Views of User/Investor Groups, Auditor Oversight Bodies and Regulator Respondents

Because only a small number of responses were from these stakeholder groups, the views are presented in this combined category.

- One user/investor organization supported the idea of non-professional ownership structures for audit firms, stating the belief that this will contribute to the functioning of audit firms, will make their pricing more reasonable and create a more healthy and open internal control structure;

- The other respondent, an auditor oversight organization, commented that it should be possible to liberalize ownership restrictions without sacrificing audit quality and that such a change may encourage new entrants into the market for the audits of the largest companies but noted that there are however other important barriers to entry, notably the question of market perception; and

- The U.S. association of state auditor licensing bodies noted the public protection aspects of current ownership restrictions.

Current Status of IOSCO Plans and Activities

The subject of whether changes should be permitted in the forms of ownership for audit firms is challenging and complex. TCSC1 is not planning more investigative or analysis work on this subject. As part of the normal course of its work, TCSC1 will continue to monitor and discuss any issues that may affect audit quality, including issues and developments that may arise in this subject area.

Appendix A Comment Letters Received Regarding Auditor Communications

#	Commenter	Abbreviation	Commenter Category
1	Canadian Public Accountability Board	CPAB	Audit Oversight Board
2	Dubai Financial Services Authority	DFSA	Securities Regulator
3	European Group of International Accounting Networks and Associations	EGIAN	Audit and Accounting Professional Association
4	EUMEDION Corporate Governance Forum	EUMEDION	Investor (Institutional Investor Association)
5	FAR SRS (The Institute for the Accountancy Profession in Sweden)	FAR-SRS	Audit and Accounting Professional Association
6	Federation of European Accountants	FEE	Audit and Accounting Professional Association
7	The Institute of Chartered Accountants of Scotland (Audit and Assurance Committee)	ICAS	Audit and Accounting Professional Association
8	Instituto De Censores Jurados De Cuentas De Espana	ICJCE	Audit and Accounting Professional Association
9	Institut der Wirtschaftsprufer	IDW	Audit and Accounting Professional Association
10	KPMG International Cooperative	KPMG	Audit Firm
11	Standard Life Investments (with attachment "Guidelines for Enhanced Disclosure")	SLI	Investor/User and FTSE 100 company
12	Hermes Equity Ownership Services	Hermes	Investor (Asset Mgr/Pension Fund Mgmt)
13	PricewaterhouseCoopers LLP	PwC	Audit Firm
14	Grant Thornton International Ltd.	GT	Audit Firm
15	International Auditing and Assurance Standards Board	IAASB	Audit Profession Standard Setter
16	CPA Australia	CPA Australia	Audit and Accounting Professional Association
17	The Nordic Federation of Public Accountants	NRF	Audit and Accounting Professional Association
18	BDO International Limited	BDO	Audit Firm
19	Ernst & Young Global Limited	EY	Audit Firm
20	SEC Thailand	SEC Thailand	Securities Regulator
21	Compagnie Nationale des Commissaires aux Comptes and the Conseil Superieur de l'Ordre des Experts-Compatables	CNCC/CSOEC	Audit and Accounting Professional Association
22	Deloitte Touche Tohmatsu	Deloitte	Audit Firm

Appendix B Comment Letters Received Regarding Transparency of Firms that Audit Public Companies

#	Commenter	Abbreviation	Commenter Category
1	Basel Committee on Banking Supervision	BCBS	Banking Supervisor
2	Canadian Public Accountability Board	CPAB	Audit Oversight Board
3	Compagnie Nationale des Commissaires aux Comptes	CNCC	Audit and Accounting Professional Association
4	Conway, Robert – Individual CPA	Conway	Individual Professional Auditor
5	Deloitte Touche Tohmatsu	Deloitte	Audit Firm
6	Dubai Financial Services Authority	DFSA	Securities Regulator
7	European Group of International Accounting Networks and Associations	EGIAN	Audit and Accounting Professional Association
8	EUMEDION Corporate Governance Forum	EUMEDION	Investor (Institutional Investor Association)
9	Ernst & Young Global Limited	EY	Audit Firm
10	FAR SRS (The Institute for the Accountancy Profession in Sweden)	FAR-SRS	Audit and Accounting Professional Association
11	Federation of European Accountants	FEE	Audit and Accounting Professional Association
12	Financial Reporting Council	FRC	Auditor Oversight Body and Regulator
13	Grant Thornton International Ltd.	GT	Audit Firm
14	The Institute of Chartered Accountants of Scotland (Audit and Assurance Committee)	ICAS	Audit and Accounting Professional Association
15	Instituto De Censores Jurados De Cuentas De Espana	ICJCE	Audit and Accounting Professional Association
16	Institut der Wirtschaftsprufer (Institute of Public Auditors in Germany)	IDW	Audit and Accounting Professional Association
17	International Federation of Accountants	IFAC	Audit and Accounting Professional Association
18	KPMG International	KPMG	Audit Firm

19	The Nordic Federation of Public Accountants	NRF	Audit and Accounting Professional Association
20	PricewaterhouseCoopers International Limited	PwC	Audit Firm
21	SEC Thailand	SEC Thailand	Securities Regulator

Appendix C Comment Letters Received Regarding Non-Professional Ownership Structures for Audit Firms

#	Commenter	Abbreviation	Commenter Category
1	CPA Australia/Institute of Chartered Accountants/National Institute of Accountants	CPA ICA NIPA Australia	Audit and Accounting Professional Association
2	Compagnie Nationale des Commissaires aux Comptes (French Institute of Statutory Auditors)	CNCC	Audit and Accounting Professional Association
3	Deloitte Touche Tohmatsu	Deloitte	Audit Firm
4	European Group of International Accounting Networks and Associations	EGIAN	Audit and Accounting Professional Association
5	EUMEDION Corporate Governance Forum	EUMEDION	Investor (Institutional Investor Association)
6	Ernst & Young Global Limited	EY	Audit Firm
7	FAR SRS (The Institute for the Accountancy Profession in Sweden)	FAR-SRS	Audit and Accounting Professional Association
8	Federation of European Accountants	FEE	Audit and Accounting Professional Association
9	Financial Reporting Council	FRC	Auditor Oversight Body and Regulator
10	Grant Thornton International Ltd.	GT	Audit Firm
11	The Institute of Chartered Accountants of Scotland (Audit and Assurance Committee)	ICAS	Audit and Accounting Professional Association
12	Instituto De Censores Jurados De Cuentas De Espana	ICJCE	Audit and Accounting Professional Association
13	Institut der Wirtschaftsprufer (Institute of Public Auditors in Germany)	IDW	Audit and Accounting Professional Association
14	KPMG International	KPMG	Audit Firm
15	National Association of State Boards of Accountancy	NASBA	Regulator and Licensing Board
16	PricewaterhouseCoopers International Limited	PwC	Audit Firm