

UK Financial Reporting Council
(Submitted via email to AAT@frc.org.uk)

12 February 2019

Dear Sirs

Response to UK Financial Reporting Council call for feedback on post implementation review of 2016 Ethical and Auditing Standards changes to implement the Audit Regulation and Directive

The International Capital Market Association (ICMA) is providing comments on one aspect of the [UK Financial Reporting Council's call for feedback on its post implementation review of 2016 Ethical and Auditing Standards changes to implement the Audit Regulation and Directive](#) of November 2018, namely whether there should be further restrictions or an outright prohibition on non-audit services.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has 540 members located in over 60 countries. See: www.icmagroup.org.

This feedback is given by the ICMA primary market constituency comprised of banks that lead-manage syndicated debt securities issues throughout Europe. This constituency deliberates principally through:

- the [ICMA Primary Market Practices Committee](#), which gathers the heads and senior members of the syndicate desks of a number of ICMA member banks active in lead-managing syndicated debt securities issues in Europe; and
- the [ICMA Legal and Documentation Committee](#), which gathers the heads and senior members of the legal transaction management teams of a number of ICMA member banks active in lead-managing syndicated debt securities issues in Europe.

We set out our comments below and would be pleased to discuss these with you at your convenience.

Yours faithfully,



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COMMENTS

Q x. Do you believe there should be further restrictions, or even an outright prohibition, on non-audit services? (a) Should any further restrictions or prohibitions also apply to "audit related" services, that the auditor is not required to provide? If so, please explain your views. (b) Should any further restrictions or prohibitions also apply to services required by law or regulation (i.e. permitted by the Audit Regulation)? If so, please explain your views.

1. A company's auditors play an important role when a company decides to raise funding in the capital markets by issuing new bonds.
2. For example:
 - a. Underwriters of new bonds will usually require the company's auditors to provide comfort on the accuracy of financial information that the company intends to give prospective investors in the bonds and any changes in the issuer's financial position since the date of its most recently audited accounts. Such comfort is usually given in a "comfort letter". The [ICMA Primary Market Handbook](#) contains an industry-standard form of letter that is typically provided by audit firms on certain types of new bond issues. We would be happy to make this available to the FRC, if that would be of useful.
 - b. In addition to providing a comfort letter, the company's auditors may answer questions from the bond underwriters on an informal basis.
 - c. Various regulatory disclosure regimes (e.g. the EU prospectus regime) may also require audit reports to be disclosed in certain circumstances.
3. The provision of the services described above is crucial to the ability of companies to raise money in the capital markets. The information provided by the company's auditors to underwriters of bonds forms an important part of the underwriters' due diligence in relation to the new issue of bonds with a view to protecting the ultimate investors in the bonds, which may include pension funds and insurance companies and, in some cases, individuals. If it is required by law for a company to disclose an audit report to investors (e.g. under the EU prospectus regime), then it will be important that the ethical and auditing standards framework allows it to comply with that requirement.
4. Any further restrictions or an outright prohibition on non-audit services would need to be approached in a manner that allows a company's audit firm to continue to provide all necessary services related to capital markets issuance, as described above.