

Mr Dipen Gadhia
Inquiry Manager
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

29th April 2013

Dear Mr Gadhia,

Re. Competition Commission's preliminary report on the statutory audit services market

Kames Capital is an active manager of equities, fixed income, cash and property investments. We believe it is our responsibility to encourage the companies in which we invest to maximise investment returns for our clients through good governance practices. As an institutional investor with £52 billion under management, we have a strong interest in seeing a competitive market in audit services. We therefore welcome the opportunity to respond to the Competition Commission's preliminary report on the statutory audit services market.

Detailed below we have set out brief comments in response to the seven possible remedy options the Competition Commission has proposed.

Mandatory tendering of the provision of statutory audit

We are in favour of mandatory tendering, an arrangement that could provide a sensible check on whether an audit firm remains suitable. Kames, as an ABI member, supported the recent changes to the FRC's UK Corporate Governance Code to require, on a 'comply or explain' basis, FTSE350 companies to put their audits out to tender every ten years. This arrangement needs to be given time to work and in turn, we believe, be expanded to capture companies outside the FTSE350. There should, however, be greater transparency in the tendering process.

Mandatory rotation of audit firm

We are not in favour of mandatory rotation of the audit firm. It is our view that mandatory rotation could be costly, disruptive and ultimately ineffective for the following reasons:

- The technical ability required to audit certain industries may mean that the opportunity set is actually reduced if the incumbent cannot re-tender (unless mid-tier firms are able to commit further resources)
- The risk that a new auditor must be appointed during a critical period eg. during a merger or acquisition
- The risk that the real reason for the incumbent stepping down is concealed

Expanded remit and/or frequency of reviews carried out by the Audit Quality Review team

We would reiterate the comments made by the ABI, which are in line with our own, in their response regarding the role of the Audit Quality Review team.

Prohibition of clauses in loan documentation that specifies the use of a Big 4 audit firm

We support this proposed remedy.

Strengthened accountability of the External Auditor to the Audit Committee

We support the strengthening of the accountability of the external auditor to the Audit Committee and in turn the need for the Audit Committee to demonstrate to investors how it discharged oversight of the external auditor.

Enhanced shareholder-auditor engagement

We support the underlying principle of enhanced shareholder engagement with auditors although we are cognizant of the extra demand on resources that this may present. In the first instance however, our preference would be to engage with the Audit Committee. In order for this engagement to be effective, better reporting by the Audit Committee to shareholders is required.

As a significant shareholder, Kames' is able to access the executive and non-executive management teams of the companies that it invests in throughout the year. Therefore, we do not rely significantly on the AGM as the sole opportunity to express our views to company management. In addition, institutional shareholders like Kames' are generally unable to attend many UK company AGMs because of their concentration during a relatively short period during the year.

Finally, we are not supportive of the proposal to include a vote on holding a tender in the next financial year. In our view, shareholders are not well placed to formulate a view on how to vote in this regard currently. In addition, such an arrangement could be significantly disruptive and detrimental to shareholders overall interests.

Extended reporting requirements

It is our understanding that the FRC is currently reviewing both the role of the Audit Committee and the Audit Report and we consider them best placed to formulate appropriate recommendations.

Thank you for the opportunity to comment on these matters.

Yours sincerely,

Greg Cooper
Executive Director