

Member State Options Table for Directive 2014/56/EU

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 2(a) Definitions</p>	<p>Article 2(1) - “statutory audit” means an audit of annual or consolidated financial statements in so far as:...</p> <p>(c) voluntarily carried out at the request of small undertakings which meet national legal requirements that are equivalent to those for an audit under point (b), where national legislation defines such audits as statutory audits;</p>	<p>When that Directive was adopted passed, audits of small undertakings were required by the 4th and 7th company law Directives subject to a MS option to provide an exemption. Had this definition applied, these audits would have been caught by Article 2(1)(a). Points (b) and (c) of Article 2(1) are new. They make sure small undertakings are still covered by this Directive even though the Accounting Directive no longer applies to the audits of small undertakings.</p> <p>In line with the 4th and 7th Directives, the UK previously provided that these audits are statutory audits, as under the Companies Act the exemption does not apply unless the directors make a statement in the balance sheet that the company is exempt. We have no plans to change this.</p>	<p>The Government has concluded that these audits should continue to be regulated as statutory audits.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 2(f) Definitions</p>	<p>Article 2(13) - Member States may also designate other entities as public-interest entities (“PIEs”).</p>	<p>Fewer additional requirements applied to the audits of PIEs under the 2006 Directive (in Chapter X) and Member States could disapply these for non-listed PIEs .</p> <p>Though Chapter X has now been replaced, that Chapter, the Audit Regulation and Article 38(3) all apply to audits of PIEs only.</p> <p>The implementation of Chapter X of the 2006 Directive generally only applied to audits of companies with securities admitted to trading on a regulated market. This was because the UK exercised the option in Article 39 to exempt non-listed PIEs from Chapter X.</p> <p>Examples of this limited application are the FRC’s Statutory Auditors (Transparency) Instrument 2008 and the FCA’s DTR 7.1 on Audit Committees. However, the Directive is minimum harmonisation and in places the implementation continued to allow wider application to be determined by FRC. The main example is the definition of “major audit” in Schedule 10 to the Companies Act, paragraph 13(10), on the AQR inspection remit. However note that this does not extend the definition of a PIE.</p>	<p>The Government has concluded that the legislative definition of a PIE should not exceed EU minimum.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 10</p> <p>Approval of auditors from another Member State</p>	<p>Article 14(2) - The host MS shall decide whether a statutory auditor seeking approval is to be subject to an adaptation period... or an aptitude test...</p>	<p>Currently only an aptitude test is provided for.</p> <p>Under the Recognition of Professional Qualifications Directive, for those qualifications where the UK has the ability to choose between provision for an aptitude test and for an adaptation period, the UK does at times choose to provide one or the other, rather than both.</p>	<p>The government has concluded that the FRC should be able to determine whether, in order to register as eligible for appointment as a statutory auditor, an EEA auditor should be subject to an aptitude test or to an adaptation period, or whether the auditor should be able to choose themselves which procedure to take advantage of.</p>
<p>Article 1 Paragraph 11</p> <p>Public register</p>	<p>Article 15(1) - MSs may derogate from the disclosure requirements for the <i>register of statutory auditors</i> to the extent necessary to mitigate an imminent and significant threat to the personal security of any person.</p>	<p>Wording was made clearer only – effect unchanged. Existing FRC regulations on the register of auditors makes use of this derogation.</p>	<p>Draft implementing regulations on the register of statutory auditors continue to make use of this derogation in line with previous FRC policy.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 16</p> <p>Preparation of statutory audit and assessment of threats to independence</p>	<p>Article 22b sub 2 - MS may provide simplified requirements for audits of certain small undertakings</p>	<p>Both these obligations (in several respects though not entirely) and this option are new to the Directive.</p> <p>Though this option is primarily intended for use in relation to new requirements, it may also affect some pre-existing requirements in the 2006 Directive, or that were previously applied in the UK on a domestic basis.</p> <p>FRC Ethical Standard Provisions available for Small Entities (ES PASE) provide exemptions from certain ethical requirements This option will allow ES PASE to continue and may allow FRC to consider going further in limited respects for audits of certain small undertakings.</p>	<p>The Government has concluded it should allocate responsibility to the FRC on whether and how to implement this option.</p>
<p>Article 1 Paragraph 18</p> <p>Internal organisation of statutory auditors and audit firms</p>	<p>Article 24a(1) sub 3 - MS may provide simplified requirements for audits of certain small undertakings</p>	<p>Both this obligation and this option are new to the Directive.</p> <p>However, these requirements were already applicable in the UK via the FRC's technical standards, which include ISQC1.</p> <p>Currently there are no "simplified" requirements in FRC standards established specifically for audits of small undertakings. However, there are some concerns that ISQC1 in particular does not have sufficient regard to the circumstances of smaller auditors.</p>	<p>Implementation should not preclude the provision of such simplified requirements. Likely to propose, subject to respondents' views, to allocate responsibility to the FRC on whether and how to implement this option.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 19</p> <p>Organisation of the work</p>	<p>Article 24b(3) - MS may exempt statutory auditors and audit firms from the obligation to keep records of any breaches of the provisions of this Directive and, where applicable, of the Regulation with regard to minor breaches.</p>	<p>Both this obligation to record breaches and this option are new to the Directive.</p> <p>Monitoring all breaches of the Directive/Regulation is not currently required by Standards (or by the Audit Regulations).</p>	<p>The Government has concluded it should allocate responsibility to the FRC on whether and how to implement these options.</p>
<p>Article 1 Paragraph 19</p> <p>Organisation of the work</p>	<p>Article 24b(7) - MS may lay down simplified requirements for audits of certain small undertakings with regard to keeping records of any breaches of this Directive and the related Regulation</p>	<p>Both this obligation to record breaches and this option are new to the Directive.</p> <p>There are no special provisions within ISAs (UK and Ireland) for the audit of small entities (although some guidance specific to small entities is included).</p>	<p>The Government has concluded it should allocate responsibility to the FRC on whether and how to implement these options.</p>
<p>Article 1 Paragraph 21</p> <p>Auditing standards</p>	<p>Article 26(1) sub 2 - MSs may apply national auditing standards, procedures or requirements as long as the Commission has not adopted an international auditing standard covering the same subject-matter.</p>	<p>Under the 2006 Directive, as the Commission did not use its power to adopt ISAs, the FRC used its existing statutory powers to apply national auditing standards and then ISAs (UK and Ireland), effectively taking up this option.</p> <p>UK domestic law already provides this power for FRC to adopt national auditing standards or ISAs and the FRC currently does this.</p>	<p>The Government has concluded it should continue to provide FRC with powers to implement this option.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 21</p> <p>Auditing standards</p>	<p>Article 26(4) sub 1 - MSs may impose audit procedures or requirements in addition to the international auditing standards adopted by the Commission, where:</p> <ul style="list-style-type: none"> • those audit procedures or requirements are necessary in order to give effect to national legal requirements; or, • to the extent necessary to add to the credibility and quality of financial statements. 	<p>Yes, but the option has been changed. First it is extended to allow for national auditing standards, where necessary, to add to the credibility and quality of financial statements. Second, MSs used to have the ability in exceptional cases to “carve out” parts of international standards to give effect to national legal requirements.</p> <p>Yes in that the FRC’s ISAs (UK and Ireland) do contain certain additional requirements for both these purposes.</p> <p>UK domestic law already provides this power for FRC to adopt additional requirements.</p>	<p>The Government intends to consider at the time of EU adoption of ISAs whether the constraints on the FRC’s powers that are provided here should be reflected in UK law.</p>
<p>Article 1 Paragraph 21</p> <p>Auditing standards</p>	<p>Article 26(5) MSs may take measures in order to ensure the proportionate application of the auditing standards to the statutory audits of small undertakings.</p>	<p>FRC’s ISAs (UK and Ireland) were viewed as scalable without additional adaptation being needed for audits of any small undertakings</p> <p>UK domestic law already provides power for FRC to adapt ISAs where needed. Currently there are no special provisions within the ISAs (UK and Ireland) for the audit of small entities (although some guidance specific to small entities is included).</p>	<p>The Government intends to consider at the time of EU adoption of ISAs whether FRC’s powers should be redrawn to reflect the adoption and to make sure that the FRC would be able to take up this option if needed.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 23</p> <p>Audit report</p>	<p>Article 28(2) sub 2 - MSs may lay down additional requirements in relation to the content of the audit report.</p>	<p>The Directive is minimum harmonisation and UK requirements on auditing standards in particular exceed those in Article 28 as inserted by Article 35 of the new Accounting Directive. Most (if not all) of these requirements are applied via FRC auditing standards.</p> <p>Article 28 as substituted by the new Accounting Directive has been implemented in UK law and in effect continues to take advantage of that minimum harmonisation.</p>	<p>This option does not add to the existing minimum harmonisation effect of the Directive. The Government has concluded it should continue to enable FRC to implement this option.</p>
<p>Article 1 Paragraph 23</p> <p>Audit report</p>	<p>Article 28(4) sub 1 – In exceptional circumstances MS may provide that the signature of the statutory auditor/s need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person.</p>	<p>Wording was made clearer only – effect unchanged. UK already takes up this option.</p>	<p>Draft amending regulations do not affect availability of this option.</p>
<p>Article 1 Paragraph 25</p> <p>Investigations and sanctions</p>	<p>Article 30(2) sub 2 - MSs may decide not to lay down rules for administrative sanctions for infringements which are already subject to national criminal law.</p>	<p>This obligation in respect of sanctions is new to the Directive.</p> <p>We think there is only limited criminal law in this area that could apply effectively in place of administrative sanctions.</p>	<p>Draft implementing regulations take up this option in relation to the application of sanctions to persons who are not statutory auditors.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 25</p> <p>Investigations and sanctions</p>	<p>Article 30(3) - MSs may decide that such disclosure of measures taken and sanctions imposed shall not contain personal data...</p>	<p>Both these obligations in respect of sanctions and this option are new to the Directive.</p> <p>Provision on this is currently contained in the FRC's Disciplinary scheme and associated publications guidance. However large numbers of minor sanctions are imposed by the RSBs under their own schemes.</p>	<p>The Government has concluded it should continue to enable FRC with powers to implement this option, though this will be subject to legislative provisions in the UK on the protection of personal data.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 25</p> <p>Sanctioning powers</p>	<p>Article 30a(2) – Member States shall ensure that the competent authorities are able to exercise their sanctioning powers in accordance with this Directive and national law in any of the following ways:</p> <ul style="list-style-type: none"> (a) directly; (b) in collaboration with other authorities; (c) by application to the competent judicial authorities. 	<p>The FRC’s current powers in respect of investigations and discipline currently derive primarily from arrangements that the RSBs are required to have in place with it as an independent body. Sanctions under these arrangements are applied by the FRC directly though under the rules of the RSB. The RSB’s own sanctioning powers operate in the same way. The FRC also has some reserve powers as the delegate of the SoS under Part 42 of the Companies Act, though these are not often used.</p>	<p>Draft implementing regulations are intended to provide continuity in the direct application of the FRC’s sanctioning powers. But some new sanctioning powers are required. While the implementing regulations provide for some of these to be applied directly under statute, we intend that others would apply by the FRC working in collaboration with other authorities with existing powers, including where necessary to apply to the courts in the exercise of certain powers (eg disqualification of directors).</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 25</p> <p>Sanctioning powers</p>	<p>Article 30a(3) - MSs may confer sanctioning powers on the Competent Authorities additional to those required</p>	<p>The Directive is minimum harmonisation and we think there are likely to be sanctions available in the UK that are not available in the Directive, or at least there is the potential for the RSBs or FRC to make rules that go further than the Directive provides.</p>	<p>The Government has concluded it should continue to enable FRC to implement this option, though this will be subject to legislative provisions in the UK on the protection of personal data.</p>
<p>Article 1 Paragraph 25</p> <p>Sanctioning powers</p>	<p>Article 30a(4) - MSs may confer on the competent authorities supervising PIEs, designated pursuant to Article 20(2) of the Regulation, powers to impose sanctions for breaches of reporting duties provided for by the Regulation.</p>	<p>No. None of (i) the obligation to designate a single competent authority with ultimate responsibility, nor (ii) the ability to designate a different authority for the purpose of Title III of the Regulation, nor (iii) the framework on sanctions were contained in the 2006 Directive. This option was also not provided.</p> <p>The “reporting duties” being sanctioned here appear to be duties on the auditor. The FRC, will be the competent authority for the purpose of paragraphs (1) and (2) of Article 20 of the Regulation.</p>	<p>The Government has concluded there is no need to implement this option in the UK as FRC is the competent authority for both purposes under Article 20 of the Regulation.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 25</p> <p>Effective application of sanctions</p>	<p>Article 30b sub 2 - ...when determining the type and level of administrative sanctions and measures, competent authorities are to take into consideration... Additional factors may be taken into account., where such factors are specified in national legislation.</p>	<p>There is no framework in the 2006 Directive on determination of sanctions for auditor disciplinary cases beyond that they must be “effective, proportionate and dissuasive”.</p>	<p>The draft implementing regulations have been prepared on the basis that it will not be necessary to specify in law “additional factors” that may be taken into account in determining administrative sanctions.</p>
<p>Article 1 Paragraph 25</p> <p>Publication of sanctions and measures</p>	<p>Article 30c(1) sub (2) - MS may permit publication of sanctions which are subject to appeal.</p>	<p>Neither these obligations on publication of sanctions and measures nor these options were provided in the 2006 Directive.</p> <p>FRC Publication Policy under the Accountancy Disciplinary Scheme allows publication of sanctions that are subject to appeal.</p>	<p>Draft implementing regulations permit this.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 25</p> <p>Publication of sanctions and measures</p>	<p>Article 30c(3) sub (2) – MS may decide that publication of sanctions and measures or any public statement is not to contain any information relating to personal data.</p>	<p>Provision on this is currently contained in the FRC Disciplinary scheme and associated publication guidance.</p>	<p>The Government has concluded it should continue to enable FRC to implement this option, though this will be subject to legislative provisions in the UK on the protection of personal data.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 26</p> <p>Principles of public oversight</p>	<p>Article 32(4A) sub 1 - MSs shall designate one or more competent authorities to carry out the tasks provided for in this Directive.</p>	<p>The 2006 Directive required a single competent authority for the purpose of European cooperation (Article 33). But otherwise only required a “system” of public oversight for the purpose of domestic regulation, which could include a number of authorities or bodies.</p> <p>The list of designated competent authorities for the UK under the 2006 Directive states that the Recognised Supervisory Bodies are competent authorities for approval, registration and continuing professional development of auditors, for inspections of non-major audits and for investigations and discipline in respect of cases that are not of major public interest. Meanwhile the FRC is the competent authority for oversight of audit regulation, European regulatory cooperation, for setting of standards for inspections of major audits and investigations and discipline in cases of major public interest.</p> <p>Note: Domestic UK framework only makes provision for governance by a majority of non-practitioners, and only in respect of the FRC. The amended Directive requires governance entirely by non-practitioners at least in respect of the single competent authority with ultimate responsibility and any other designated competent authority.</p>	<p>The Government has concluded it should designate the FRC as the single competent authority for the purposes of the Directive. It should delegate to Recognised Supervisory Bodies, in respect of most of those tasks (as opposed to the delegation being made in statute).</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 26</p> <p>Principles of public oversight</p>	<p>Article 32(4b) sub 1 - Member States may delegate or allow the competent authority to delegate any of its tasks to other authorities or bodies designated or otherwise authorised by law to carry out such tasks.</p>	<p>Concept of delegation is new, though the UK framework does allocate responsibilities to competent authorities / bodies as discussed above. However this allocation is through the RSBs' audit regulations, though these are subject to statutory underpinning.</p> <p>The UK's allocation of responsibilities has some limited similarities to the EU delegation framework in some areas:</p> <ul style="list-style-type: none"> • On inspections the FRC can currently designate a class of audits as a major audits so that those audits are subject to FRC inspection. This is comparable to a system of partial delegation. • For investigations and discipline, functions are allocated to the RSBs but, the FRC is responsible for investigations and discipline of public interest cases including the ability to "call in" cases of major public interest on a case by case basis. . This is comparable to the ability of the competent authority in EU law to reclaim delegated functions on a case-by-case basis in the new Directive. <p>However these "allocations" of responsibilities are via the professional bodies rules in compliance with statutory requirements.</p>	<p>The Government has concluded that (i) FRC as the competent authority with ultimate responsibility should have oversight of (1) approval and registration (2) inspections (3) investigations and discipline, (4) setting of standards and (5) CPD.</p> <p>We have concluded that (1), (2), (3) and (5) should be allocated and delegated in this way (though not for auditors of PIEs in the case of (2) and (3). Exceptionally for these it would also be possible to reclaim delegated tasks on a case by case basis.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 29</p> <p>Professional secrecy and regulatory cooperation between MSs</p>	<p>Article 36(4a) - MS may allow competent authorities to transmit confidential information to the competent authorities responsible for supervising PIEs, to central banks, to the European System of Central Banks and to the European Central Bank, in their capacity as monetary authorities, and to the European Systemic Risk Board, where they are intended for the performance of their tasks.</p>	<p>These institutions were not provided for in the 2006 Directive.</p> <p>Existing legislative information gateways in Schedule 11A to the Companies Act already provides for the European Central Bank and other MS central banks.</p>	<p>Consultation proposes additional legislative information gateways.</p>
<p>(No amendment)</p> <p>Appointment of statutory auditors or audit firms</p>	<p>Article 37(2) - Member States may allow alternative systems or modalities for the appointment of the statutory auditor or audit firm, provided that those systems or modalities are designed to ensure the independence of the statutory auditor or audit firm from the executive members of the administrative body or from the managerial body of the audited entity.</p>	<p>This provision (which is unchanged) only had limited effect under the 2006 Directive.</p> <p>However for PIEs that effect is increased considerably by the new Regulation. Where this option is implemented, mandatory retendering of audit firm appointments under the Regulation is not required other than to extend the current audit engagement for a further 10 years, for appointment of auditors by Directors in certain circumstances and for appointment by the SoS.</p>	<p>The Government has concluded that current powers for Directors to appoint auditors in certain circumstances can be retained under this option.</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 31</p> <p>Dismissal of auditors</p>	<p>Article 38(3)(b) - MSs shall ensure it is permissible for... (b) the other bodies of the audited entities when defined by national legislation;... to bring a claim before a national court for the dismissal <i>of auditors</i> where there are proper grounds.</p>	<p>There is currently no explicit right along these lines in UK law though minority shareholders can bring a claim for actions prejudicial to their interests. This explicitly includes unfair dismissal of the auditor but might also include retaining the auditor inappropriately.</p>	<p>The Government has concluded that it should not take up this option to add to who can bring a claim before a national court for the dismissal of auditors.</p>
<p>Article 1 Paragraph 32</p> <p>Audit committee</p>	<p>Article 39 – Various MS options in relation to audit committees</p>	<p>These options will be implemented through FCA DTRs for listed companies and PRA rules for unlisted banks and insurers. FCA and PRA are consulting separately.</p>	<p>See FCA and PRA consultations.</p>
<p>Article 1 Paragraph 33(d)</p> <p>Registration and oversight of third country auditors and audit firms</p>	<p>Article 45(6) – Member States may assess the equivalence referred to in point (d) of paragraph 5 of this Article (ie equivalence to international auditing standards) as long as the Commission has not taken any such decision</p>	<p>Wording was made clearer only – effect unchanged. Partly because ISAs have not yet been adopted under the 2006 Directive, the Commission has not taken a Decision on the equivalence of any third country standards</p>	<p>Existing BIS legislation unlikely to require amendment</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 34</p> <p>Derogation in case of equivalence</p>	<p>Article 46(2) sub 1 – Member States may decide to rely on such equivalence partially or entirely and thus to disapply or modify the requirements in Article 45(1) and (3) partially or entirely.</p>	<p>Wording was made clearer only – effect unchanged.</p> <p>. The FRC direction provides that in respect of inspections of third country auditors the FRC will usually rely on an equivalence decision.</p>	<p>Existing BIS legislation unlikely to require amendment</p>
<p>Article 1 Paragraph 34</p> <p>Derogation in case of equivalence</p>	<p>Article 46(2) sub 1 - Member States may assess the equivalence referred to in paragraph 1 of this Article or rely on the assessments carried out by other Member States...</p>	<p>Commission transitional Decisions have consistently precluded these MS assessments for third countries that are not assessed as equivalent or subject to a transitional arrangement under the Decision</p>	<p>Existing BIS legislation unlikely to require amendment</p>

Article and Paragraph of Directive 2014/56/EU that amends Directive 2006/43/EC	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU in UK law in line with these options	Current planned UK implementation of this option
<p>Article 1 Paragraph 35(a)</p> <p>Cooperation with third countries</p>	<p>Article 47(1) – MSs may allow the transfer to the competent authority of a third country of audit working papers and other documents held by them and of inspection and investigation reports relating to the audits in question provided that certain conditions are met.</p>	<p>Provision (when viewed as an optional exception to a general duty of confidentiality) is wider than previously because of the inclusion of inspection and investigation reports. There is also a further proviso by way of an additional requirement as to the content of reciprocal arrangements that must be in place with the recipient competent authority.</p> <p>UK took up the option to facilitate these transfers via the implementation of the relevant Commission Decisions on the adequacy of certain third country competent authorities.</p>	<p>Position in existing BIS legislation will continue to hold.</p>

Member State Options Table for Regulation (EU) No 537/2014

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 2(3)</p> <p>Scope of financial institutions to be audited</p>	<p>Para 3 - Where a cooperative within the meaning of point (14) of Article 2 of Directive 2006/43/EC, a savings bank or a similar entity as referred to in Article 45 of Directive 86/635/EEC, or a subsidiary or a legal successor of a cooperative, a savings bank or a similar entity as referred to in Article 45 of Directive 86/635/EEC is required or permitted under national provisions to be a member of a non-profit-making auditing entity, the Member State may decide that this Regulation or certain provisions of it shall not apply to the statutory audit of such entity, provided that the principles of independence laid down in Directive 2006/43/EC are complied with by the statutory auditor when carrying out the statutory audit of one of its members and by persons who may be in a position to influence the statutory audit.</p>	<p>There was an exemption from Article 3(4)(b) (voting rights in audit firms) for certain cooperatives, which may be related.</p> <p>There was a MS option at Article 39 to exempt the whole of Chapter 10 for unlisted banks and insurers, which is much wider</p> <p>The Article 3(4)(b) exemption was not taken up in paragraph 7(3)(a) of Schedule 10 to the Companies Act 2006, which applies to all statutory audits by firms.</p> <p>The UK did take advantage of the MS option at Article 39 and several Articles of Chapter 10 are only implemented for listed entities</p> <p>There is no existing UK law in line with this specific option. We believe it was inserted specifically for certain types of cooperative bank and / or insurer in other northern European MSs.</p>	<p>The Government has no plans to implement this option as it does not seem to be relevant in UK.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 4</p> <p>Audit Fees</p>	<p>Para 2 sub 3 - MS may provide that a competent authority may, upon a request by the statutory auditor or the audit firm, allow that statutory auditor or audit firm, on an exceptional basis be exempt from the NAS cap requirements for a period not exceeding two financial years.</p> <p>Para 4 - MS may also choose to apply more stringent requirements.</p>	<p>The obligations on the cap on non-audit services and these options are new to this Regulation.</p>	<p>FRC to implement the cap through ethical standards and to decide whether to take up the options on these, including on discretionary exemptions, to the extent it thinks appropriate.</p>
<p>Article 5</p> <p>Prohibition of Non-Audit Services</p>	<p>Para 2 - MS may prohibit additional services other than those listed where they consider that those services represent a threat to independence.</p> <p>Para 3 - Member States may allow a de minimis exemption in relation to preparation of tax forms, identification of public subsidies and tax incentives, support regarding tax inspections by tax authorities, calculation of direct and indirect tax and deferred tax, provision of tax advice, and valuation services by the statutory auditor.</p> <p>Para 4 sub 2 - MS may establish stricter rules for providing NAS not prohibited by Article 5.</p>	<p>The obligations in respect of the blacklist of non-audit services and the option are new in this Regulation.</p>	<p>FRC to implement the blacklist through ethical standards and to decide whether to take up the options on these, including on discretionary exemptions, to the extent it thinks appropriate.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 10</p> <p>Audit Report</p>	<p>Para 2 sub 2 - Member States may lay down additional requirements in relation to the content of the audit report.</p>	<p>The Directive is minimum harmonisation and the UK does make additional provision as to the content of the audit report, mostly through FRC standards.</p>	<p>FRC to implement standards on the audit report and to decide whether to include additional reporting requirements as they consider appropriate.</p>
<p>Article 11</p> <p>Additional Report to Audit Committee</p>	<p>Para 1 – MS may:</p> <ul style="list-style-type: none"> • require the audit committee to disclose that additional report to such third parties as are provided for in their national law; • Require that this additional report be submitted to the board of directors 	<p>Both the obligation to provide an additional report and these options are new in this Regulation. However auditing standards previously provided for an additional report. Auditing standards currently provide it is for the audit committee to determine who the additional report may be sent to.</p>	<p>FRC to implement standards on the additional report</p>
<p>Article 11</p> <p>Additional Report to Audit Committee</p>	<p>Para 2 sub 2 - MS may...lay down additional requirements as to the content of the additional report to the audit committee.</p>	<p>FRC Auditing standards previously provided for an additional report to the audit committee, in which the FRC, in its usual standard setting role , could include additional material.</p>	<p>FRC to implement standards on the additional report and to decide whether additional material should be included.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 12</p> <p>Report to Supervisors of PIEs</p>	<p>Para 1 sub 1 – ...the statutory auditor or the audit firm carrying out the statutory audit shall have a duty to report promptly to the competent authorities supervising that public interest entity, or where specified by the MS concerned, to the competent authority responsible for oversight of the statutory auditor or audit firm, any information concerning that PIE.</p>	<p>Both the obligation for the auditor to report to supervisors of PIEs and these options are new in this Regulation.</p> <p>For financial services providers, national law specifies that the PRA is the recipient and not the FRC.</p>	<p>Consultation proposes that this information should be sent to PRA for banks and insurers, and FCA and FRC for other listed companies</p>
<p>Article 12</p> <p>Report to Supervisors of PIEs</p>	<p>Para 1 sub 3 - MS may require additional information from the statutory auditor provided it is necessary for effective financial market supervision as provided for in national law.</p>	<p>For banks and insurers, the provision is included in the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001.</p>	<p>The Government has no plans to add to the regulation beyond what is in place already in UK domestic law.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 15</p> <p>Record Keeping</p>	<p>Sub 2 - MS may require statutory auditors and audit firms to keep particular documents and information for a longer period than the five years laid down in Article 15, sub 1 in accordance with their rules on personal data protection and administrative and judicial proceedings.</p> <p>(The documentation and information is referred to in Article 4(3), Article 6, Article 7, Article 8(4) to (7), Articles 10, and 11, Article 12(1) and (2), Article 14, Article 16(2), (3), and (5) of this Regulation, and Articles 22d, 24a, 24b, 27 and 28 of the 2006 Directive as amended)</p>	<p>Both this obligation on record keeping and this option are new in this Regulation.</p>	<p>The Government has no plans to add to the regulation beyond what is in place already in UK domestic law.</p>
<p>Article 16</p> <p>Appointment of statutory auditors</p>	<p>Para 7 - MS may decide that a minimum number of statutory auditors or audit firms are to be appointed by PIEs in certain circumstances and establish the conditions governing the relations between the statutory auditors or audit firms appointed.</p>	<p>Directive is minimum harmonisation so MSs were permitted to require that a minimum number of auditors were appointed. UK only requires that one auditor need be appointed though more than one auditor would be permitted.</p>	<p>The Government will not impose further burdens beyond those required to be implemented as an EU minimum.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 16</p> <p>Appointment of statutory auditors</p>	<p>Para 8 – MS may allow a nomination committee which satisfies certain conditions to perform the functions of the audit committee in Article 16 and require it to submit the recommendation for the appointment of statutory auditors to the general meeting of shareholders or members.</p>	<p>Both this obligation as to the role of the audit committee in the appointment of the auditor and this option are new in this Regulation.</p> <p>However, Article 41 of the 2006 Directive does provide an option to allow other bodies to perform equivalent functions to those of the audit committee, if the company prefers.</p> <p>In the UK the directors could currently put in place whatever framework they choose to identify an auditor to put to members for appointment</p>	<p>The Government will not implement this option given that the new Article 38 of the Directive as amended provides an option to allow other bodies to perform equivalent functions. It also conflicts with UK law on directors’ duties as submitting a recommendation to members on the appointment of the auditor is a role for directors.</p>
<p>Article 17</p> <p>Duration of Audit Engagement</p>	<p>Para 2(a) - MS may require that the initial engagement (<i>of at least one year</i>) be for a period of more than one year.</p>	<p>The Directive is minimum harmonisation so MSs were permitted to require that the auditor’s initial engagement was for a period of more than a year. In the UK all appointments are for 1 year which can be renewed, other than for private companies, where the auditor’s term of office may be extended a year at a time where deemed reappointment of auditors applies.</p>	<p>The Government has no plans to add to the Regulation requirements implemented as the EU minimum.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 17</p> <p>Duration of Audit Engagement</p>	<p>MS may:</p> <p>Para 2(b) - set a maximum duration of less than 10 years for the engagements.</p> <p>Para 4(a) - Provide that the maximum duration may be extended by conducting a public tendering process to up to 20 years.</p> <p>Para 4(b) - Provide that the maximum may be extended, where more than one statutory auditor or audit firm is simultaneously engaged, to up to 24 years.</p>	<p>Both the obligation to have a maximum duration and the options as to its length and the conditions for its extension are new in this Regulation.</p> <p>Mandatory retendering of auditor appointments at least every 10 years has been implemented by CMA Order for the FTSE 350.</p>	<p>The Government will implement a 10 years maximum duration for all PIES with an extension to up to 20 years subject to retendering at least once every 10 years. This involves taking advantage of some of the flexibilities offered by the MS option under Article 4(a) so as to facilitate retendering before 10 years has expired.</p>
<p>Article 17</p> <p>Duration of Audit Engagement</p>	<p>Para 7 sub 2 - MS may require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity earlier than seven years from the date of their respective appointment.</p>	<p>The 2006 Directive included this requirement for partner rotation every 7 years but, as it is minimum harmonisation, the Financial Reporting Council's Ethical Standard on Long Association with the Audit Engagement required partner rotation at least every 5 years.</p>	<p>FRC to continue to implement the partner rotation period through ethical standards.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 20</p> <p>Designation of Competent Authorities</p>	<p>Para 2 - MS may decide that the responsibility for ensuring that all or part of the provisions of Title III of the Regulation (“Appointment of statutory auditors or audit firms”) are entrusted as appropriate to the supervisory authorities responsible for overseeing the relevant sectors.</p>	<p>The obligation to appoint a single competent authority and this option to appoint a different authority for the supervision of appointment of auditors is new in the new Directive and Regulation.</p> <p>Only comparable function has been that under Article 38(2) of the 2006 Directive where the competent authority for receipt of notices of auditors leaving office at PIEs was the FRC (the same authority as for general audit oversight).</p> <p>As corporate governance regulator, FRC has more of a natural role in issues such as auditor appointment than might be the case for some competent authorities.</p>	<p>The Government has concluded that FRC should be delegated as the competent authority for (most of) the purposes of Title III as for its other responsibilities under the Directive and Regulation.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 23</p> <p>Powers of competent authorities</p>	<p>Para 4 – Member States shall ensure that the competent authorities are able to exercise their supervisory and investigatory powers in any of the following ways:</p> <p>(a) directly;</p> <p>(b) in collaboration with other authorities;</p> <p>(c) by application to the competent judicial authorities.</p>	<p>The FRC’s current powers in respect of investigations and discipline currently derive primarily from arrangements that the RSBs are required to have in place with it. The FRC also has some reserve powers as the delegate of the SoS under Part 42 of the Companies Act, though these are not often used. These all only extend to the investigation of auditors themselves.</p>	<p>Draft implementing regulations are intended to provide continuity in the direct application of the FRC’s investigatory powers. But some new investigatory powers are required. The implementing regulations provide for these to be applied directly under statute (eg to enable information on PIE audits to be obtained from third parties).</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 24</p> <p>Delegation of Tasks</p>	<p>Para 1 - MS may:</p> <ul style="list-style-type: none"> • delegate; or, • allow the competent authority with responsibility for oversight to delegate ... tasks [for PIEs] to other... bodies authorised by law. <p>For PIEs, this is with the exception of:</p> <ul style="list-style-type: none"> • quality assurance; • investigations (arising from the quality assurance system or where the case has been passed to FRC by another authority); and, • sanctions (though see below). 	<p>Both the obligation to appoint a single competent authority and this option to allow tasks to be delegated by that authority or the MS are new in this Regulation and the new Directive.</p> <p>Current UK implementation of the 2006 Directive recognises several competent authorities for different purposes. These are the FRC and the “recognised supervisory bodies”, which are “authorised by law” by the FRC. UK delegates functions to these in legislation.</p> <p>Arrangements in UK law at present provide the FRC determines:</p> <ul style="list-style-type: none"> • which statutory audits are within the inspection remit of AQR; • which audit cases should be subject to FRC investigation and sanctions as matters of major public interest. 	<p>For audits of PIEs, FRC to delegate functions of approval and registration and CPD to the RSB.</p>

Article of the Regulation	What is the option and where is it in Directive 2006/43/EC?	Previous provisions in Directive 2006/43/EU or in UK law in line with these options	Current planned UK implementation of this option
<p>Article 24</p> <p>Delegation of Tasks</p>	<p>Para 4 – MS may decide to delegate the task of imposing <i>sanctions</i> (in relation to QA reviews and investigations of statutory auditors of PIEs) to other authorities or bodies designated or otherwise authorised by law to carry out such tasks, when the majority of the persons involved in the governance of the authority or body concerned are independent from the audit profession.</p>	<p>Directive does not provide for a single competent authority or reserve investigations and sanctions to that authority. However, where the “system of public oversight” initiates an investigation it would be expected to impose the penalty. However as administrative sanctions following an inspection are not considered, delegation of these sanctions is possible.</p> <p>Until 2012 the FRC relied on the recognised supervisory bodies to determine and impose administrative sanctions in the light of inspection findings that called the auditor’s performance into question. Amendments to the Companies Act 2006 that year introduced a framework in which sanctions are determined by the FRC.</p>	<p>This option was included primarily for use in certain other MSs, and the draft implementing regulations do not include provision to apply it in a UK context.</p>
<p>Article 28</p> <p>Transparency of Competent Authorities</p>	<p>Point (d) - MS may require the publication of the findings and conclusions on individual inspections.</p>	<p>Up to now, conclusions and findings of individual inspections have not been reported publicly. However this issue is being considered by FRC following publication of the findings of the CMA on audits of the FTSE 350.</p> <p>UK law would generally not prevent publication of these findings.</p>	<p>FRC to decide whether to take up option to publish findings and conclusions on individual inspections.</p>

BIS/15/608