

## Consultation response

### UK Competition and Markets Authority – Statutory Audit Services Market Study

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AFME (Association for Financial Markets in Europe) welcomes the opportunity to comment on the Competition and Markets Authority's statutory audit services market study update paper published in December 2018. AFME wishes only to respond to question 24, which we consider is relevant to our members and their activities in the context of the underwriting and placing of shares.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate for stable, competitive, sustainable European financial markets that support economic growth and benefit society

Our comments are set below.

**Q24. Which non-audit services (services other than statutory audits) should the audit practices be permitted to provide under a full structural split and operational split? Please explain your reasoning.**

1. A company's auditors play an important role when a company decides to undertake equity capital raising whether by offering new shares or admitting shares to the regulated market, as reporting accountants or as auditor. There is currently no bar to a company appointing its existing auditors to act as reporting accountants.
2. A significant degree of the value that issuers and the underwriting banks derive from reporting accountants is in the private reports they provide including that there have been no significant changes since the date of the financial information included in the prospectus and on other key topics such as financial position and prospects, working capital and accuracy of extraction from the financial information. There are recognised industry parameters for comfort letters to the company and underwriters regarding these topics, where new shares are to be offered or admitted to the regulated market.
3. In addition to providing comfort letters, the company's auditors answer questions from both the issuer and the underwriters during due diligence. The purpose of this element of the due diligence process is to identify material information related to the company's business and operations which may need to be disclosed in the prospectus. Ultimately, this process protects end investors in the shares.
4. A further important aspect of the work carried out by the reporting accountants, regarding a proposed offer of shares or admission to listing, will be assisting the issuer in preparation of the financial information that must be produced in the prospectus relating to the offer or listing. This will typically include a report that the financial information has been produced to an appropriate standard and is not misleading. This helps investors to know that the financial information has been reviewed by a reporting accountant (and the Prospectus Directive and the new Prospectus Regulation each requires such a confirmation to be included in the prospectus).

5. In the UK, where a listing of shares is on the premium listing segment of the Official List of the Financial Conduct Authority, there will also be a number of additional workstreams that the accountants will be asked to carry out (including the use of reports and comfort letters) to support the mandatory confirmations that the issuer and sponsor will give pursuant to the Prospectus Directive (and, in the UK, the Listing Rules).
6. Given that the importance of the provision of the services described above to the ability of companies to raise money in the equity capital markets, our view is that, if a split between audit and non-audit services is implemented, the relevant department of the company's auditor should be able to continue to provide such services.

4 February 2019