

8 July 2021

Submitted via email to: audit.consultation@beis.gov.uk

RE: Restoring trust in audit and corporate governance – Consultation on the Government’s proposals

BlackRock¹ is pleased to have the opportunity to respond to “Restoring trust in audit and corporate governance: Consultation on the government’s proposals”, issued by the Department for Business, Energy & Industrial Strategy (BEIS).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

Executive summary

BlackRock is supportive of proposals to strengthen corporate reporting and corporate governance in the UK. To reinforce the proportionality approach taken by BEIS and ensure the new measures, taken together, do not lead to unintended consequences, we recommend a phased approach is adopted.

We are supportive of a proportionate approach for private Public Interest Entities (PIEs), with exemptions for wholly owned subsidiaries of a listed group, and non-FTSE 350 investment trusts. We agree with the proposal that any directors’ internal control statement and attestation should be limited to the financial reporting internal controls. We also believe managed shared audit regime should be applicable only to FTSE 350 premium listed companies with more than 500 employees.

We welcome the proposal to phase-in the new definition. We recommend Option 2 as the new definition of PIEs, applied to UK registered entities, which will extend the definition to large companies with over 500 employees, and a turnover of more than £500 million. We believe this Option better captures the companies that can be considered as Public Interest Entities given the cumulative employee criteria. Other options would put in scope entities, such as investment trusts, for which a number of the proposals would not be applicable.

From an investor perspective, BlackRock welcomes BEIS’s proposal to have companies publish a Resilience Statement as part of their annual reporting, as investors would benefit from having additional clarity around the material uncertainties considered by management during their assessment of the company’s viability.

While we agree with the proposed list of preliminary macro themes in the Resilience Statement, we believe companies should be able to maintain some level of flexibility to allow directors and management to use their professional judgement.

¹ BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

We also understand the rationale for including “climate related risk” in the list of macro areas to be considered in the new Resilience Statement. However, we are concerned that this might distract companies from producing a comprehensive TCFD (Task Force on Climate related Financial Disclosures) report, and thereby reduce the quality of the disclosures expected of companies by their investors. We recommend BEIS specifies the extent to which the climate risk information contained in the Resilience Statement will interact with companies’ separate TCFD report.

We welcome the objective of the Audit and Assurance Policy (AAP) to provide an additional layer of reassurance around company internal auditing and assurance processes as well as greater transparency to investors and other users about what information is assured and clarity on the level of assurance provided.

We recommend that any vote on the AAP be subject to a non-binding advisory shareholder vote over a three-year cycle. We stress the importance that any newly introduced shareholder vote does not reduce the responsibility of auditors and directors to fulfil their statutory requirements. Indeed, shareholders’ role is to be advised on or vote on the company’s overall approach to assurance policy, rather than being involved into the specificities implemented by the company year after year. Guidance should be clear that shareholders are not expected to become involved in the day-to-day management of portfolio companies or their approach to audit issues. Finally, any additional vote should complement the existing voting and accountability mechanisms, including the reappointment of the auditor and the re-election of Audit Committee members.

Responses to questions

Chapter 1: The Government's approach to reform

1) *Should large private companies be included within the definition of a Public Interest Entity (PIE)? Please give your reasons.*

BlackRock supports the inclusion of UK-registered large private companies within the definition of a PIE given their significance to the economy and the public interest.

We are supportive of the proportionate approach taken in the consultation regarding the application of only selected proposals to private PIEs. Such a selection should reflect the different risk profiles and ownership profiles between private and listed entities.

We recommend that the definition of a PIE to include the number of employees of a listed or non-listed entity as one of its main criteria.

We would encourage the Government to also consider whether there could be exemptions from certain proposals for large private PIEs which are wholly owned subsidiaries of a listed parent entity in the UK or overseas which provides equivalent disclosures at the group level.

BlackRock suggests that a review of current large private company thresholds used in various UK reporting requirements should be undertaken, with the aim of streamlining thresholds used. This would simplify the reporting regime for private companies and ensure that only those which meet the PIE definition are impacted by enhanced reporting requirements. This review should include the amendments to the Companies' Act on TCFD reporting, Streamlined Energy and Carbon Reporting (SECR) regulations, the Corporate Governance Reporting Requirements for Large Private Companies, reporting on Directors Duties, and other reporting requirements.

2) *What large private companies would you include in the PIE definition: Option 1, Option 2 or another? Please give your reasons.*

BlackRock is supportive of Option 2. Option 2 covers both employee numbers and turnover, and as such captures the risks involved to the public interest from the private sector in a way that is more proportionate than Option 1. We also believe this Option better captures the companies that can be considered as PIEs given the added employee criteria. Option 1 would bring an additional estimated 1,960 private entities, doubling the current number of PIEs. This would mean more than half of the cohort of PIEs would be from the private sector, and would run the risk of putting in scope entities, such as investment trusts, investment trusts – for which a number of the proposals would not be applicable.

BlackRock is supportive of the proposal that parent entities which include a large PIE are also brought within scope of the new definition. We agree that this should only apply where a parent entity is required to prepare consolidated financial statements, thus avoiding the unnecessary inclusion of intermediate parent entities within the regime. It is important to clarify in future legislation that this exemption from the regime scope will apply even if an entity is taking exemption from preparing group financial statements as an intermediate parent company, but the ultimate parent is a non-UK reporter. This would ensure that private intermediate parents are treated consistently. If private group financial statements are prepared, it may be beneficial to consider whether there could be an option for private PIEs to elect to comply with the proposals outlined in this consultation at group rather than entity level.

3) Should AIM companies with market capitalisation exceeding €200m be included in the definition of a PIE? Please give your reasons.

We recommend that AIM companies meeting the market capitalisation *and* employee number criteria applied to large private companies be included in the definition of PIE to achieve proportionality. However, we recommend that the market capitalisation criteria be based on pound sterling to be consistent with the size criteria for large private companies.

4) Should Government give newly listed companies a temporary exemption from some of the new reporting and attestation requirements being considered for Public Interest Entities?

We recommend that the new requirements be phased-in gradually for recently-listed companies over a 3-year period to allow these companies time and opportunity to introduce new reporting and attestation requirements.

5) Should the Government seek to include Lloyd's Syndicates in the definition of a PIE? Please give your reasons.

No response.

6) Should the Government seek to include large third sector entities as PIEs beyond those that would already be included in the definitions proposed for large companies? If so, what types of third sector entities do you believe should be included and why?

No response.

7) What threshold for 'incoming resources' would you propose for the definition of 'large' for third sector entities? Is exceeding £100m too high, too low or just right?

No response.

8) Should any other types of entity be classed as PIEs? Why should those entities be included?

BlackRock does not believe that entities should be included within the PIE definition purely on industry classification and without further considering their existing regulatory regime.

9) How would an increase in the number of PIEs impact on the number of auditors operating in the PIE audit market?

Our recommended Option 2 under Question 2 above would bring in 20 additional audit firms into scope. This will enable the firms to invest in technology and skills upgrading to enable them to efficiently audit PIEs. Option 1 has the potential to add 90 audit firms which potentially could lead to decrease in quality, lower expertise and increase costs for audit firms to be viable.

10) Do you agree that the Government should provide time for companies to prepare for the introduction of a new definition of PIE?

BlackRock agrees with the proposal to allow a significant lead time and phased implementation before introducing a new PIE definition.

We also agree that provisions should be put in place regarding qualifying and ceasing to qualify as a PIE (such as a two-out-of-three-year requirement) so that companies have time to prepare for the additional responsibilities.

11) Do you agree that the Government should seek to offer a phased introduction for a new definition of PIE?

BlackRock agrees with the proposed phased introduction of the new definition of PIE with it applying to FTSE 350 premium listed companies initially, then to all premium listed companies and finally to all PIEs over a three-year period.

Chapter 2: Directors' accountability for internal controls, dividends and capital maintenance

12) Is there a case for strengthening the internal control framework for UK companies? What would you see as the principal benefits and disbenefits of stronger regulation of internal controls?

BlackRock is supportive of the case for strengthening internal controls on the premise that this applies to Option 2 of the new definition of PIEs, as per our recommendation in the responses to questions 1 to 11 above.

We agree that the lines of accountability to the company's management in case of material financial misstatements can be further strengthened. Existing requirements on internal controls do not go far enough and lack accountability. The current requirements are limited to premium listed companies, responding to the UK Corporate Governance Code on a 'comply or explain' basis. These proposed reporting requirements would thus incentivise directors to focus on the internal controls in place.

From a stewardship perspective, we would welcome investee companies to provide this additional level of reassurance from management, but it is important to understand how this would translate in practice. In this regard, we believe that focus should be on internal controls over financial reporting. An attestation over all internal controls is much more complex, would take a long time and be a costly exercise without providing material information to investors.

In addition, further clarity is needed to understand what underlying oversight processes should be adopted by the management team to come up with this confirmation and what will be the Audit Committees' oversight expectations on it.

13) If the control framework were to be strengthened, would you support the Government's initial preferred option (Table 2)? Are there other options that you think Government should consider? Should external audit and assurance of the internal controls be mandatory?

On the premise that this applies to Option 2 of the proposed new PIE definition, we are supportive of the government's preferred option for the control framework as outlined in Table 2.

From a stewardship perspective, having management signing off the accuracy of internal controls framework will create an additional layer of accountability and ensure that internal controls are effective and prioritised. We agree with the principles of extending this requirement to all Directors, with a particular focus on the CEO and CFO.

As stated earlier, we believe that the scope should be limited to internal controls over financial reporting as outlined in the consultation and not widened to cover all internal controls.

From a preparer perspective, BlackRock is also supportive of external audit and assurance being mandatory on internal controls over financial reporting as we believe this would provide assurance to directors as well as to external stakeholders. We would welcome the opportunity to comment on this area more fully when further details are available and prior to any legislation coming into force.

14) If the framework were to be strengthened, which types of company should be within scope of the new requirements?

On the premise that this applies to Option 2 of the proposed new PIE definition, BlackRock supports the proposal for requirements to apply initially to premium listed companies and extended to PIEs after two years.

A balanced approach for recently-listed companies could be defined to promote a comprehensive level of controls to be in place prior listing, while at the same time avoid intimidating companies to delay their decision to go public due to onerous requirements.

We would welcome consideration as to whether an exemption could be put in place for private PIEs which are wholly owned subsidiaries of a listed parent and provide equivalent disclosures and director responsibility around internal controls (in the UK or overseas). In this situation, the cost of complying with the requirements at the subsidiary entity level may outweigh the benefit given that there are no external shareholders, and that the information is available at the group level.

15) Should the regulator have stronger responsibilities for defining what should be treated as realised profits and losses for the purposes of section 853 of the Companies Act 2006? Would you support either of the two options identified? Are there other options which should be considered? What should ARGA consider when determining what should be treated as realised profits and losses?

BlackRock is supportive of the ARGA having responsibility for defining realised profits and losses in order to provide an authoritative basis to the definition.

We would encourage ARGA to follow a guidance and principles-based approach, with examples where necessary, rather than a binding rules approach. A principles-based approach is more adaptive to future situations and avoids the creation of loopholes in a rules-based approach. ARGA should use the existing ICAEW and ICAS guidance as a starting point and should consult fully with stakeholders.

16) Would the proposed new distributable profit reporting requirements provide useful information for investors and other users of accounts? Would the cost of preparing these disclosures be proportionate to the benefits? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

BlackRock is supportive of the proposal of issuing guidance to assist companies regarding disclosure of group dividend paying capacity as this involves more complexity and practical considerations than disclosure at the parent entity level.

We agree that the additional proposed requirements are limited to listed and AIM companies and not extended to all PIEs.

17) Would an explicit directors' statement about the legality of dividends and their effect on the future solvency of a company be effective in both ensuring that directors comply with their duties and in building external confidence in compliance with the dividend rules? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

BlackRock agrees that any new requirements should be limited to listed and AIM companies and not extended to all PIEs.

18) Do you agree that the combination of recently introduced Companies Act section 172(1) reporting requirements along with encouragement from the investment community and ARGA will be enough to ensure that companies are sufficiently transparent about their distribution and capital allocation policies? Should a new reporting requirement be considered?

BlackRock agrees that companies should have discretion to develop their own narrative approach to distribution and capital allocation policies and therefore does not believe any that any mandatory requirement regarding disclosure of a company's distribution policy should be introduced at this time.

Chapter 3: New corporate reporting

19) Do you agree that the above matters should be included by all companies in the Resilience Statement? If so, should they be addressed in the short- or medium-term sections of the Statement, or both? Should any other matters be addressed by all companies in the short- and medium-term sections of the Resilience Statement?

BlackRock welcomes BEIS's proposal to have companies, including UK-registered PIEs and entities captured by Option 2, publish a Resilience Statement as part of their annual reporting. This will provide greater transparency to users of financial statements. However, we are conscious this might be sensitive for private entities that were not previously required to prepare such statements. This point should be considered in any guidance issued by ARGA.

From an investor perspective, we would benefit from having additional clarity around the material uncertainties considered by management during their assessment of the company's viability.

Regarding the list of matters that should be included in the Resilience Statement, we agree with the preliminary list of macro themes identified by BEIS. We are not particularly prescriptive as to whether these matters should be included in the short or medium-term section of the Statement, but we believe that the Resilience Statement could provide an opportunity to further enhance decision-useful reporting in this specific area. Having said that, we believe investee companies should maintain some level of flexibility. The list of matters could be provided within some principles-based guidance issued by ARGA which would allow directors to use their professional judgement, enabling them to consider and identify, in coordination with the management team, the existing and emerging risks that the company is exposed to.

In terms of timeframes of reference for the Statement, companies should indicate why the specific period was chosen; differentiate time horizons for prospects and viability; assess the sustainability of dividends, and address stress testing.

The short-term statement should be subject to review by an external auditor in order to provide an independent view on the validity of the information contained.

We support the extension of the mandatory assessment period to five years and the requirement to include at least two reverse stress testing scenarios.

20) Should the Resilience Statement be a vehicle for TCFD reporting in whole or part?

As a shareholder investing in companies on behalf of asset owner clients, BlackRock advocates for disclosures aligned with the TCFD reporting frameworks and sector-specific, financially material metrics such as those developed by the Sustainability Accounting Standards Board (SASB). These frameworks cover the physical, liability, and transition risks associated with climate change. They guide companies in providing financially material and decision useful information that is comparable within each industry. In our experience, sustainability reporting that focuses on the most material factors for a company's business model enhance investors' understanding of operational and financial performance.

We understand that "climate related risk" has been included in the preliminary list of macro areas to be considered in the new Resilience Statement. However, the Resilience Statement should not be used as an excuse from companies for not producing a wholesome TCFD report at the level of the 11 recommendations.

Encouraging TCFD-aligned reporting in the Resilience Statement, at the level of the 4 pillars, would reduce the quality of the disclosures, and not satisfy the information needs of investors. Our recommendation is therefore to have a more fulsome TCFD disclosure elsewhere in the Annual/Integrated Report but referenced in the Resilience Statement.

Recognising the materiality of sector-specific sustainability risks to long-term investment returns, the assumptions underlying a company's financial reports are of paramount importance. In particular, the company should reflect assumptions made about the impact of climate risk and the transition to a low carbon economy on the company's profits, liabilities and assets. In our view, some of these considerations should be tackled within the Resilience Statement.

21) Do you agree with the proposed company coverage for the Resilience Statement, and the proposal to delay the introduction of the Statement in respect of non-premium listed PIEs for two years? Should recently-listed companies be out of scope?

We agree that the requirement to publish a Resilience Statement should first apply to premium listed companies as they are already used to preparing viability statements. Therefore, we deem reasonable to delay the introduction of this statement to non-premium listed PIEs for the next few years.

Regarding recently-listed companies, please refer to our response provided at Question 14 which similarly applies to the requirement of preparing a Resilience Statement.

22) Do you agree with the proposed minimum content for the Audit and Assurance Policy? Should any other matters be addressed in the Policy by all companies in scope?

We welcome the objective of the Audit and Assurance Policy (AAP) to provide an additional layer of reassurance around company internal auditing and assurance processes as well as greater transparency to investors and other users about what information is assured and clarity on the level of assurance provided – on the premise that it applies to the PIEs as per our recommendation in the responses to questions 1 to 11 above.

This has been an area of concern in the past few years where the investor community has not always been clear on the levels of assurance on information provided outside and inside a company's Annual Report.

On the content of the AAP itself, we agree that investors would benefit from receiving an explanation on what form of independent assurance the company intends to obtain in relation to the annual report and other company disclosures beyond those required by statutory audit as well as a description of the company's internal auditing and assurance processes. Specifically, investors would benefit from receiving further details on how company management's conclusions in the annual report and accounts have been tested and verified internally. Similarly, additional transparency on the tendering of external assurance services would be helpful.

As long-term investors focused on ensuring the sustainable long-term value creation of our client's assets, we believe that controls relating to the collection and reporting of ESG information should be rigorous in anticipation of assurance standards being set in due course.

In this respect, while we recognise to the limitation of standards against which ESG disclosure by issuers can be independently assessed, we would expect external auditors to provide at least some form of independent assurance on the company's sustainability processes (e.g. process for defining a company carbon reduction plan). As a shareholder, we value external audit work, and, in time, independent assurance of ESG data to support our long-term assessment of investee companies. There is still a lot of work to be done to develop sustainability reporting practices and metrics. Until there is a common set of baseline standards, auditors can build their expertise to independently assess climate metrics (e.g. portfolio temperature metrics, carbon emissions intensity of a portfolio and whether it is on track to meet a certain trajectory). Similarly, "social" metrics are possibly even harder to quantify and hence assess (e.g. lives improved, communities helped, etc.). Therefore, flexibility will be needed in terms of the areas to be considered by companies when preparing the AAP. This is because investors' expectations and priorities are evolving to best reflect what constitutes investment risks.

23) *Should the Audit and Assurance Policy be published annually and subject to an annual advisory shareholder vote, or should it be published and voted on at least once every three years?*

We favour a three-year cycle for shareholders to vote to approve the APP on a non-binding basis.

The delineation of roles between directors, auditors and shareholders must be clear. Shareholders' role is to be advised or vote on the company's overall approach to assurance policy, rather than being involved into the specifics implemented by the company each year. Guidance should be clear that shareholders are not expected to become involved in the day-to-day management of portfolio companies or their approach to audit issues.

A shareholder vote should not reduce or replace the responsibility of the auditors and directors to fulfil their statutory responsibilities. An additional vote should complement the existing voting and accountability mechanisms used by shareholders, such as the reappointment of the auditor, the re-election of Audit Committee members and engagement on audit matters.

As noted earlier, while we recognise the importance of engagement on audit matters, this engagement should not be dependent solely on the vote on this particular item. Shareholders are already required to vote on a series of audit related issues, notably the re-election and remuneration of auditors, the re-election of Audit Committee members and the approval of financial statements. Specifically, the re-election of Audit Committee members in our view is an important accountability tool to reflect concerns on a company's financial reporting practices.

BlackRock recognises the critical importance of financial statements, which should provide a true and fair picture of a company's financial condition. Accordingly, the assumptions made by management and reviewed by the auditor in preparing the financial statements should be reasonable and justified.

In cases involving significant financial restatements or ad hoc notifications of material financial weakness, where we have concerns about audit oversight BlackRock may vote against the re-election or re-appointment of members of the Audit Committee and / or the re-appointment of the auditor.

Similarly, where we believe that the Audit Committee has failed to disclose or remediate material weaknesses identified by internal or external auditors within a reasonable timeframe, we would consider holding members of the audit committee accountable.

24) Do you agree with the proposed scope of coverage and method for implementing the Audit and Assurance Policy?

We agree that the requirement should first apply to premium listed companies on the premise that it applies to the PIEs as per our recommendation in the responses to questions 1 to 11 above. This would allow the new requirements to be tested prior extending them to a wider universe of companies.

We would encourage consideration of an exemption from the requirement to have an AAP Policy for wholly-owned private subsidiaries of a listed group given the lack of external shareholders at the entity level, making the objective of increasing engagement with external shareholders irrelevant.

25) In order to improve reporting on supplier payments, should larger companies be required to summarise their record on supplier payments over the previous 12 months as part of their annual Strategic Report (applying at a group level in the case of parent companies)? If so, what should the reporting summary include at a minimum? Do you have alternative suggestions on how to improve supplier payments reporting?

BlackRock believes that reporting on supplier payments in the strategic report should be aligned to current requirements under the Payment Practices Reporting Duty (PPRD) to ensure that only one set of data and requirements are required for both purposes – on the premise that it applies to the PIEs with more than 500 employees.

26) To which companies should improvements in supplier payments reporting apply: companies which are PIEs and already report under the Payment Practices Reporting Duty, or PIEs with more than 500 employees?

As outlined in our response to question 1, BlackRock believes that thresholds for additional reporting requirements for large companies be aligned to avoid a confusing spectrum of reporting regulations. Therefore, the criteria selected for the PIE definition should apply to supplier payments reporting to PIEs with more than 500 employees.

27) Do you agree with the Government's proposal not to introduce a new statutory requirement at this time for directors to publish an annual public interest statement?

We agree with the principle of the annual public interest statement and acknowledge that corporate reporting needs to serve the interests of an increasingly wide range of stakeholders.

In this respect, we believe that Section 172 of the Companies' Act is a useful tool for encouraging greater reporting on companies' interactions with their key stakeholders. While we recognise the quality of reporting under Section 172 could still be improved, we

would support companies being encouraged to enhance their Section 172 reporting as opposed to introducing a new reporting requirement.

We support the BEIS's considerations to keep this proposal under review and be brought forward if and where significant gaps in the current reporting requirements are identified.

Chapter 4: Supervision of corporate reporting

28) Do you have any comments on the Government's proposals for strengthening the regulator's corporate reporting review function set out in this chapter?

Whilst BlackRock supports the proposed strengthening of ARGA's reporting review function, we believe it is important that appropriate procedures are put in place for companies to appeal or challenge ARGA decisions.

We are supportive of the power for ARGA to publish findings. However, we are also conscious that disclosure may contain specific commercially sensitive information. We therefore support publication of summary findings rather than of all correspondence.

We support that power to direct changes to accounts be only exercised after having consultation and agreement with the entities and only to rectify any non-compliance with accounting and reporting requirements. BlackRock is supportive of ARGA's proposed new regulatory principle relating to promoting brevity, comprehensibility and usefulness in corporate reporting.

Chapter 5: Company directors

29) Are there any other arrangements the Government should consider to ensure that overlapping powers are managed effectively?

BlackRock is supportive of the proposals to work with other regulatory bodies to ensure that overlapping powers are managed effectively and would emphasise the importance of ARGA working closely with the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority.

30) Are there any additional duties that you think should be in scope of the regulator's enforcement powers?

As long-term investors, we rely on the financial information contained in annual reports to make informed decisions.

Where there are concerns with a company's preparation and approval of the financial statements, we believe that regulators should have the power to investigate *all* directors and not just those involved as qualified accountants. This reflects the collective responsibility of the board of directors in relation to corporate reporting.

In this respect, we believe that the director responsibilities over corporate reporting currently outlined in law are correct and set the right framework. We think it is important that directors of companies are held accountable and appropriately sanctioned if they fail to fulfil their duties.

31) Are there any existing or proposed directors' duties relating to corporate reporting and audit that you think should be specifically included or excluded from further elaboration for the purposes of the directors' enforcement regime?

BlackRock is supportive of further detail being provided by ARGA to assist directors in understanding what is required of them to meet their statutory duties. We recommend

that such elaboration takes the form of principles-based guidance, which allows directors to apply judgement and avoids a tick-box approach.

32) Should directors of public interest entities be required to meet certain behavioural standards when carrying out their statutory duties relating to corporate reporting and audits? Should those standards be set by the regulator? What standards should directors have to meet in this context?

As outlined above, we believe that current statutory duties are sufficient. In the case of the financial services sector, the FCA conduct rules already require directors to act with honesty and integrity so the proposed behaviour standards appear duplicative.

If a decision is made to extend directors' statutory duties to cover behavioural standards, consideration should be given to extending this to cover all company directors rather than just PIE directors.

33) Should the Government's proposed enforcement powers be made available to the regulator in respect of breaches of directors' duties?

BlackRock is supportive of ARGA's enforcement powers covering breaches of directors' duties.

34) Are there other conditions that should be considered for the proposed minimum list of malus and clawback conditions? What legal and other considerations need to be taken into account to ensure that these conditions can be enforced in practice?

No response.

Chapter 6: Audit purpose and scope

35) Do you agree that a new statutory requirement on auditors to consider wider information, amplified by detailed standards set out and enforced by the regulator, would help deliver the Government's aims to see audit become more trusted, more informative and hence more valuable to the UK?

We agree and strongly believe that detailed standards are necessary for auditors to think through what could be considered as wider information. Imposing this statutory requirement without detailed standards could result in a significant increase in audit costs disproportionate to the expected benefits. This could also put a burden on auditors to consider every piece of wider information available in the public domain, some of which may be false and misleading.

36) In addition to any new statutory requirement on auditors to consider wider information, should a new purpose of audit be adopted by the regulator, or otherwise? How would you expect this to work?

No response.

37) Do you agree with the Government's approach of defining the wider auditing services which are subject to some oversight by the regulator via the Audit and Assurance Policy?

We agree with the notion of widening the level of regulatory oversight in line with the auditing services that are captured within companies' AAP. This would ensure that appropriate oversight of services is provided to companies as part of the assurance process, and should allow audit services and regulatory oversight to evolve with the audit

activities that issuers chose to seek. We recommend that these requirements apply initially to premium listed companies and extended to PIEs after two years.

38) Should the regulator’s quality inspection regime for PIE audits be extended to corporate auditing? If not, how else should compliance with rules for wider audit services be assessed?

No response.

39) What role should ARGAs have in regulating these wider auditing services? Should its role extend beyond setting, supervising and enforcing standards?

No response.

40) Would establishing new, enforceable principles of corporate auditing help to improve audit quality and achieve the Government’s aims for audit? Do you agree that the principles suggested by the Brydon Review would be a good basis for the regulator to start from?

We recommend that additional clarity on the audit principle “Auditors act in the public interest and have regard to the interests of the users of their report beyond solely those of shareholders” as the words “public interest” and “users of report beyond solely those of shareholders” can be open to various interpretations – especially as this could lead to confusion over the responsibility directors have towards their shareholders and the accountability they have towards other stakeholders.

41) Do you agree that new principles for all corporate auditors should be set by the regulator and that other applicable standards or requirements should be subject to those principles? What alternatives, mitigations or downsides should the Government consider?

No response.

42) Do you agree with the Government’s proposed response to the package of reforms relating to fraud recommended by the Brydon Review? Please explain why.

We support the proposals to:

- require directors of a PIE to report on the steps taken to prevent and detect fraud. All companies, irrespective of their size, should provide a minimum level of disclosure on their anti-fraud practices;
- clarify the concept that it is the responsibility of the auditors to detect material fraud in all reasonable ways, and
- require auditors of PIEs, as part of their statutory audit, to report on the work performed to conclude whether the proposed directors’ statement regarding actions taken to prevent and detect material fraud is factually accurate.

We believe the introduction of a more comprehensive internal controls framework in the UK would support the proposals.

43) Will the proposed duty to consider wider information be sufficient to encourage the more detailed consideration of i) risks and ii) director conduct, as set out in the section 172 statement? Please explain your answer.

No response.

44) Do you agree that auditors' judgements regarding the appropriateness of any departure from the financial reporting framework proposed by the directors should be informed by the proposed Principles of Corporate Auditing? What impact might this have on how both directors and auditors assess whether financial statements give a true and fair view?

We support the true and fair view requirements and that each departure from the financial reporting framework should be informed by the proposed Principles of Corporate Auditing. This is paramount for investors to make an informed investment decision on the long-term financial resilience of a company.

The principle of the true and fair view allows board, auditors and ultimately jurisdictional courts to ensure compliance with a set of accounting standards. Accordingly, we welcome the decision not to adopt a new requirement to "present fairly, in all material respects".

Indeed, what is required is not new terminology but clarification as to what a true and fair view means in practice and we would therefore be supportive of a new 'user guide to audit' being published by the supervisory body. We note that current FRC guidance has been challenged previously and would welcome further independent review.

45) Do you agree that the need for specific assurance on APMs or KPIs, beyond the scope of the statutory audit, should be decided by companies and shareholders through the Audit and Assurance Policy process?

We do not agree. We believe that the board should be responsible for recommending what assurance approach to take on APMs and KPIs rather than having a regulatory requirement to have these reviewed by auditors.

46) Why have companies generally not agreed LLAs with their statutory auditor? Have directors been concerned about being judged to be in breach of their duties by recommending an LLA? Or have other factors been more significant considerations for directors?

A quantifiable limit on auditor liability would not lead to improvements in audit quality or its effectiveness. Many shareholders would vote against Limited Liability Agreements (LLAs) in general meetings. Experience in other countries is that they do not permit LLAs on statutory audits.

47) Are auditors' concerns about their exposure to litigation likely to constrain audit innovation, such as more informative auditor reporting, the level of competition in the audit market (including new entrants) or auditors' willingness to embrace other proposals discussed in this consultation? If so, in what way and how might such obstacles be overcome?

No response.

48) Do you agree that a new, distinct professional body for corporate auditors would help drive better audit? Please explain the reasons for your view.

No response.

49) What would be the best way of establishing a new professional body for corporate auditors that helps deliver the Government's objectives for audit? What transitional arrangements would be needed for the new professional body to be successful?

We encourage the review of the range of skills required by corporate auditors and a system to be established so these can be appropriately assessed, supervised and reviewed. This review should be driven by ARGA with appropriate training and authorisation requirements. We support the Principles of Corporate Auditing forming an overarching framework over the behaviours of auditors, encompassing public interest, objectivity, transparency, challenge to management and clarity of reporting.

50) Should corporate auditors be required to be members of, and to obtain qualifications from, professional bodies that are focused only on auditing?

No response.

51) Do you agree that a new audit professional body should cover all corporate auditors, not just PIE auditors?

No response.

Chapter 7: Audit Committee Oversight and Engagement with Shareholders

52) Do you agree that ARGA should be given the power to set additional requirements which will apply in relation to FTSE 350 audit committees?

BlackRock is supportive of these additional requirements applying to FTSE 350 audit committees with more than 500 employees.

From an investor perspective, we believe that Audit Committees should always act independently, when setting the scope of the audit and when overseeing the production of audit reports that meet investors' needs. To this end, we would support requirements to strengthen independent oversight and effectively improve audit quality by ensuring more independent judgment by auditors.

In this respect, the proposed requirements should reinforce investor expectations and ensure that accountability is properly placed on relevant directors.

We believe that Audit Committees should continue to be required to ensure that auditors, as well as Audit Committee members themselves, challenge company management's assumptions and judgements, and deliver high-quality audits that are undertaken with the appropriate thoroughness, scepticism and independence.

While we welcome more disclosure on audit quality, excessive requirements or enforcement powers could have affect companies' ability to appoint Audit Committee members. Any requirements should be limited to what is proportionate to achieve the objective.

We do not believe that ARGA should be able to appoint an observer to the Company's Audit Committee. We would only expect an observer in exceptional circumstances further described under the next question.

53) Would the proposed powers for ARGA go far enough to ensure effective compliance with these requirements? Is there anything further the Government would need to consider in taking forward this proposal?

We recommend that safeguards be put in place in relation to the power to have an observer on Audit Committees, to deal with commercially sensitive and confidential information shared with the regulator. We do not believe such information should be made public without the entity's consent. Any concerns identified by the regulator should be shared privately with the Audit Committee, including steps to be taken to address them.

54) Do you agree with Sir John Kingman's proposal to give the regulator the power to appoint auditors in specific, limited circumstances (i.e. when quality issues have been identified around the company's audit; when a company has parted with its auditor outside the normal rotation cycle; and when there has been a meaningful shareholder vote against an auditor appointment)?

We do not agree. This would partially remove directors' responsibilities to shareholders with regards to audit oversight.

We recommend the regulator puts its efforts towards establishing improved disclosures on audit quality to best allow shareholders to hold auditors or Audit Committee members to account where audits are of poor quality.

55) To work in practice, ARGA's power to appoint an auditor may need to be accompanied by a further power to require an auditor to take on an audit. What do you think the impact of this would be?

Please refer to response previously provide at Question 54.

56) What processes should be put in place to ensure that ARGA can continue to undertake its normal regulatory oversight of an audit firm, when ARGA has appointed the auditor?

No response.

57) What other regulatory tools might be useful when a company has failed to find an auditor or in the circumstances described by Sir John Kingman (i.e. when quality issues have been identified around the company's audit; when a company has parted with its auditor outside the normal rotation cycle; and when there has been a meaningful shareholder vote against an auditor appointment)?

We believe that if a company fails to appoint an auditor, the existing arrangements under the Companies Act, whereby the Secretary of State has power to appoint an auditor where the company has failed to appoint an auditor within 28 days of circulation of its accounts, suffice. If the issue persists, we believe that ARGA should be required to institute a retendering process or at the very least require a change in audit partner.

58) Do you agree with the proposals and implementation method for giving shareholders a formal opportunity to engage with risk and audit planning? Are there further practical issues connected with the implementation of these proposals which should be considered?

Shareholders enter in direct dialogue with companies on governance issues that have a material impact on sustainable long-term financial performance; audit related matters are included in these considerations.

In this respect, we welcome the objective of improving the opportunities for shareholders to share their views on particular areas of interest or concern for consideration as part of the audit of premium listed companies. We recommend any shareholder votes on policy be advisory.

However, consulting investors on the audit plan might raise questions on the line of accountability if something gets omitted from the audit and could lead to the risk of Material Non-Public Information being disclosed during the consultation with investors. Engagement about the audit plan by the chair of the Audit Committee should take the form of a listening tour to inquire whether shareholders have any areas of concerns, rather than asking shareholders what they would like to see being included in the audit plan. That is why we would welcome further guidance from ARGA on how this formal engagement mechanisms can be made in practice.

We also support the proposal to require Audit Committees to outline which shareholder suggestions related to the audit plan have been put forward for consideration and the this should also include the reason(s) why these have been accepted or rejected by the auditor. In addition, it is important to note that the audit plan is a highly detailed and technical non-public document, which the investor community may not have access to or be best placed to comment on. To this end a summary of the audit plan would certainly help the process and we would encourage this to focus on the key risks identified.

59) Do you agree with the proposed approach for ensuring greater audit committee chair and auditor participation at the AGM? How could this be improved?

As part of general meetings, shareholders must approve the annual report and financial statements as well as the appointment and remuneration of auditors. Shareholders can also ask any questions to directors and auditors present at the general meeting. Nevertheless, we believe that both the audit committee chair and senior auditor should be encouraged to attend the AGM and be available to answer questions from investors.

60) Do you believe that the existing Companies Act provisions covering the departure of an auditor from a PIE ensure adequate information is provided to shareholders about an auditor's departure? If you believe those provisions are inadequate, do you think that the Brydon Review recommendations will address concerns in this area? What else could be done to keep shareholders informed?

Directors already have a requirement under the UK Corporate Governance Code to disclose information around audit tendering and reasons for a change of auditors. The current provisions of the Companies Act are adequate. Where we would welcome improvements, however, is on the disclosures themselves where the language can be more specific and provide more transparency.

We are not particularly prescriptive for a general meeting to be held following the dismissal and/or a tender change of an auditor. It would be sufficient to raise it at the next AGM, which would still allow investors to hold directors to account for any failure to fulfil their duties.

Chapter 8: Competition, choice and resilience in the audit market

61) Should the ‘meaningful proportion’ envisaged to be carried out by a Challenger be based on legal subsidiaries? How should the proportion be measured and what minimum percentage should be chosen under managed shared audit to encourage the most effective participation of Challenger firms and best increase choice?

We recommend on grounds of proportionality that the managed shared audit requirement be limited to audits of FTSE 350 premium listed companies with more than 500 employees.

We also recommend that managed shared audit is not implemented for investment trust companies as it would not provide additional value for such companies. Investment trust companies have independent non-executive board of directors, are already required to have an independent valuer and an independent depository to hold assets in custody.

We recommend that any proposals are introduced in a phased manner such that any new approach is adopted when audit contracts are mandatorily tendered rather than with immediate effect.

62) How could managed shared audit be designed to incentivise Challenger firms to invest in building their capability and capacity? What, if any, other measures, would be needed?

No response.

63) Do you have comments on the possible introduction in future of a managed market share cap, including on the outlined approach and principles? Are there other mechanisms that you think should be considered for introduction at a future date?

We do not recommend introducing a managed market share cap as it limits choice available in the market and the selection of most suitable and experienced service providers for the entity.

64) Do you have any further comments on how the operational separation proposals should be designed, codified (in legislation and regulatory rules), and enforced in order to achieve the intended outcome of incentivising higher audit quality?

No response.

65) The Government proposes to require that all audit firms provide annual reports on their partner remuneration to the regulator. This will include pay, split of profits, and which audited entities they worked on. Do you have any comments on this approach?

No response.

66) In the event that the Government wishes to go further than the existing operational split proposals in future and implement split profit pools in line with the CMA recommendation, do you have any comments on how these can be made to work effectively?

No response.

67) The Government believes these proposals will meet its objectives. In the event that they prove insufficient to improve audit quality, and full separation of professional services firms is required, do you have any comments on how to make this work most effectively?

No response.

68) Do you have comments on the proposed measures? Are there any other measures the Government should consider taking forward to address the lack of resilience in the audit market?

No response.

Chapter 9: Supervision of audit quality

69) Do you agree with the Government's approach of allowing the FRC to reclaim the function of determining whether individuals and firms are eligible for appointment as statutory auditors of PIEs?

No response.

70) What types of sensitive information within AQR reports on individual audits should be exempt from disclosure?

BlackRock agrees that safeguards should be put in place to offer adequate protection to the entity being audited in an Audit Quality Review (AQR) report, including redacting of sensitive information. However, it is difficult to comment on what types of sensitive information should be exempt from disclosure without seeing the format of an AQR report on an individual entity. We would therefore support further detail being published and consultation on this issue.

If the proposals to publish are accepted, we recommend that publication of commercially sensitive information is done only after the consent of the entity.

Consideration should also be given to how a poor-quality audit identified in an AQR report will reflect on the reputation of the audited entity, especially in the case of no wrongdoing by the entity itself.

71) In addition to redacting sensitive information within AQR reports on individual audits, what other safeguards would be required to offer adequate protection to the entity being audited whilst maintaining co-operation with their auditors?

See response above.

72) Do you agree with the Government's approach to component audit work done outside the UK? How could it be improved?

No response.

73) Do you agree that it is problematic if documents that the auditor reviewed as part of the audit are unavailable to the regulator because of the audited entity's legal professional privilege? If so, what could be done to solve or mitigate this issue while respecting the overall principle of legal professional privilege?

We recommend that the consent of the audited entity be obtained before the documents that the auditor reviewed as part of the audit are shared with the regulator.

Chapter 10: A strengthened regulator

74) Do you agree with the proposed general objective for ARGA?

BlackRock is supportive of the proposed general objective for ARGA to protect and promote the interests of “users of corporate reporting and wider public interest” and would welcome an opportunity for ARGA to further clarify the objective as there is a variety of users of corporate reports with different, and possibly conflicting, interests.

75) Do you agree that ARGA should have regard to these regulatory principles when carrying out its policy-making functions? Are there any other regulatory principles which should be included?

BlackRock is supportive of the proposed regulatory principles for ARGA. Further clarity could be provided on some of the regulatory principles. For example, one of the regulatory principles of ARGA is to promote competition in the market for statutory audit services. This principle is not clear on how this objective will be enforced or followed by the regulator.

Chapter 11: Additional changes in the regulator’s responsibilities

76) Should the scope of the regulator’s oversight arrangements be initially confined to the chartered bodies and should they be required to comply with the arrangements?

No response.

77) What safeguards, if any, might be needed to ensure the power to compel compliance is used appropriately by the regulator?

No response.

78) Should the regulator’s enforcement powers initially be restricted to members of the professional accountancy bodies? Should the Government have the flexibility to extend the scope of these powers to other accountants, if evidence of an enforcement gap emerges in the future? What are your views on the suggested mechanisms for extending the scope of the enforcement powers to other accountants (if it is appropriate at a later stage)?

No response.

79) Should the regulator be able to set and enforce a code of ethics which will apply to members of the chartered bodies in the course of professional activities? Should the regulator only be able to take action where a breach gives rise to issues affecting the public interest? What sanctions do you think should be available to the regulator?

No response.

80) Is ARGA the most appropriate body to undertake oversight and regulation of the actuarial profession?

No response.

81) Should the regime for overseeing and regulating the actuarial profession be placed on a strengthened and statutory basis?

No response.

82) Do respondents support the proposed principles for the regulation of the actuarial profession? Respondents are invited to suggest additional principles.

No response.

83) Are the proposed statutory roles and responsibilities for the regulator appropriate? Are any additional roles or responsibilities appropriate for the regulator?

No response.

84) Should the regulator continue to be responsible for setting technical standards? Should these standards be legally binding? Should the regulator be responsible for setting technical standards only?

No response.

85) Should the regulator be responsible for monitoring compliance with technical standards? Should it also consider compliance with ethical standards if necessary?

No response.

86) Should the regulator have the power to request that individuals provide their work in response to a formal request - and to compel them to do so if necessary?

No response.

87) Should the regulator have the power to take appropriate action if work falls below the requirements of the technical standards? What powers should be available to the regulator in these instances?

No response.

88) Do respondents agree with the proposed scope for independent oversight of the IFoA? In which ways, if any, should the scope be amended?

No response.

89) Should the regulator's oversight of the IFoA be placed on a statutory basis? What, if any, powers does the regulator require to effectively fulfil this role?

No response.

90) Does the current investigation and discipline regime remain appropriate? Should it be placed on a statutory basis? What, if any, additional powers does the regulator require to fulfil this role?

No response.

91) Do respondents think that the regulator's remit should be extended to actuarial work undertaken by entities? What would be the appropriate features of such a regime, including the appropriate enforcement powers for the regulator?

No response.

92) Should the regulator's independent investigation and discipline regime for matters that affect the public interest also apply to entities that undertake actuarial work? Should the features of the regime differ for Public Interest Entities?

No response.

93) Does the regulator require any further powers in relation to its regulation and oversight of the actuarial profession?

No response.

94) Are there other matters which PIE auditors should have to report to the regulator? Could this duty otherwise be improved to ensure that viability and other serious concerns are disclosed to the regulator in a timely way?

We recommend on grounds of proportionality that the other matters which auditors should have to report to the regulator on the premise that this applies to the PIEs as per our recommendation in the responses to Questions 1 to 11 above.

95) Should auditors receive statutory protection from breach of duty claims in relation to relevant disclosures to the regulator? Would this encourage auditors to report viability and other concerns to the regulator?

No response.

96) How much time should be given to respond to a request for a rapid explanation?

No response.

97) Should the regulator be able to publish a summary of the expert reviewer's report where it considers it to be in the public interest?

We recommend that the power to publish a summary of the expert reviewer's report be exercised only as a last resort after agreement with the PIE and ensuring all commercially sensitive and confidential information is appropriately redacted.

98) Are there any additional powers that you think the regulator should have available where an expert review identifies significant non-compliance by a company in relation to its corporate reporting and audits?

No response.