Professional Oversight Board

Consultation Document:

Monitoring the work of Third Country Auditors

March 2012

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One – Introduction

1.1. The Statutory Audit Directive ("SAD"), adopted by the European Union in May 2006 and transposed into law in the United Kingdom from 29 June 2008, sets requirements for the regulation of the auditors ("third country auditors" or "TCAs") of companies incorporated outside the EU that have issued securities admitted to trading on regulated markets within the EU, including on the main market of the London Stock Exchange ("UK-traded companies"). The regulation of third country auditors is one of the responsibilities delegated to the Professional Oversight Board ("Oversight Board")[1]. At of the end of December 2011 there were 106 third country audit firms registered in the UK. Most of these were members of one of the four largest international 'networks' of accountancy firms.

1.2. The Directive requires that in certain circumstances Member States apply their system for the external monitoring of audit work to third country auditors and the relevant audit engagements. This requirement applies for the most part where there is no equivalent system of audit regulation and external monitoring in the third country, and no plans to introduce such a system.

1.3. The purpose of this document is to seek the views of interested parties – in particular investors, third country auditors, issuers from outside the EU, and other regulators - on proposals for the system of external monitoring that the Oversight Board should apply to third country auditors.

1.4. The particular problem the Oversight Board faces is how to apply external monitoring to third country auditors in a way that meets our obligations under the Statutory Audit Directive but is proportionate to the significance of a particular issuer for UK investors and has regard to the likely costs involved in monitoring the quality of the relevant audits and auditors around the world.

1.5. We set out our analysis of the relevant issuers and audit firms in Section 2, and the proposals on which we would welcome views in Section 3. Section 4 gives a draft impact assessment and Section 5 sets out how to respond.

[1] The Statutory Auditors (Delegation of Functions) Order 2008 (SI 2008/496)

Two – Background and Analysis

2.1. In broad terms the SAD and a related European Commission Decision of January 2011[2] require Member States to put in place arrangements for external monitoring of third country auditors, other than for auditors of issuers in countries given "transitional" status or "equivalent" status.

2.2. The January 2011 Decision:

- approved the system of audit regulation in ten non-EU countries[3] as "equivalent" to the requirements of the SAD;
- gave a further twenty countries "transitional status"[4] for a limited period, based on an assessment that these countries were in the process of establishing an equivalent system of audit regulation.

2.3. The effect is that Member States:

- cannot apply arrangements for monitoring to the work of auditors of issuers in the "transitional" countries ("transitional auditors");
- can choose whether or not to apply such arrangements to auditors of issuers in "equivalent" countries ("equivalent auditors"), subject to appropriate reciprocity;
- must apply such arrangements to the auditors of other issuers. We refer to these auditors below as "Article 45 auditors".

2.4. The UK Government implemented that Decision in September 2011[5] and the Oversight Board gave statutory directions[6] in December 2011 to complete the detailed legal framework in the UK. The principal effect of the Oversight Board directions is to disapply the requirement to

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[2] Articles 45 and 46 of the SAD; and Commission Decision (2011/30/EU) of 19 January 2011 on the equivalence of certain third country public oversight, quality assurance, investigation and penalty systems for auditors and audit entities and a transitional period for audit activities of certain third country auditors and audit entities in the European Union.

[3] The "equivalent" countries are: Australia, Canada, China, Croatia, Japan, Singapore, South Africa, South Korea, Switzerland, United States of America. As at the end of December 2011 there were 34 firms from equivalent countries registered as TCAs in the UK. .

[4] The "transitional" countries are: Abu Dhabi, Bermuda, Brazil, Cayman Islands, The Dubai International Financial Centre, Egypt, Guernsey, Hong Kong, India, Indonesia, Isle of Man, Israel, Jersey, Malaysia, Mauritius, New Zealand, Russia, Taiwan, Thailand, Turkey. As at the end of December 2011 there were 41 firms from transitional countries registered as TCAs in the UK.

[5] The Statutory Auditors and Third Country Auditors (Amendment) Regulations 2011 (2011/1856)

[6] The directions currently made by the Oversight Board can be found via the following link to the FRC web-site: http://www.frc.org.uk/documents/pagemanager/pob/Third_Country_auditors/Registration/POB%20Direction%20under%20Companies%20Act%202006%20041108final.doc

have external monitoring arrangements in respect of third country auditors that fall under the "transitional" regime and (provided that the "equivalent" third country does not impose more onerous requirements on UK audit firms) under the "equivalent" regime.

2.5. The principal focus in this document therefore is on "Article 45" auditors. However, we also consider the approach we should follow where the auditor oversight body of an "equivalent" audit firm imposes monitoring requirements on UK auditors of companies that have issued securities on its markets.

"Article 45" Auditors

2.6. The analysis at Annex A shows the number of issuers and registered third country auditors, as at December 2011, in countries that are neither equivalent nor transitional under the January 2011 Decision, together with a preliminary assessment of each relevant issuer as of low, medium or high significance[7] for UK investors. There were 31[8] such audit firms, undertaking 43 relevant audits.

2.7. The main point that we draw from the analysis is that there are wide variations in the significance of individual issuers and individual countries, and therefore wide variations in the ratio of cost to benefit that can be expected to result from external monitoring of relevant audit firms.

2.8. For some countries with, say, a couple of low significance issuers, we see little value for UK investors in inspecting the quality of the audit; and the costs of an inspection visit are likely to be wildly disproportionate to any possible value; for other countries there are a number of much more significant issuers and there may be value for UK investors, if we are able to apply external monitoring successfully.

2.9. We also assessed other aspects of the auditors, issuers and the countries in which they are based, and identified several significant practical considerations, which may limit or restrict the ability to carry out external monitoring effectively in some jurisdictions:

- Whilst in many cases some audit working papers are in English, the detailed working papers and company records are often in other languages; and in a number of cases all the working papers are in another language.

[7] Annex A explains the criteria we have used for this assessment.
[8] In addition there are two "Article 45" registered firms with no relevant audit clients.

- There are significant variations in the legal framework in the relevant third countries. In some cases it is likely to be difficult or impossible for a foreign regulator to access relevant papers, even as part of an on-site monitoring visit[9].
- There are possible security considerations in some countries, which may make it difficult or inadvisable for the Oversight Board to allow its staff to carry out on-site reviews.

2.10. Our overall assessment is that, for the UK, it is not possible to carry out 'on-site' reviews of all third country auditors in a way that is proportionate to the significance of the issuers or will offer benefits that are commensurate with the costs. Section 4 gives more information on possible costs and benefits. We have therefore tried to find the best way of applying a proportionate system of external monitoring, whilst recognising the constraints identified above. We set out specific proposals in Section 3.

"Equivalent" Auditors

2.11. One of the principles underlying Article 46 of the SAD is that audit regulators and oversight bodies should rely as much as possible on external monitoring by other equivalent regulators and that this should be on a reciprocal basis. The Commission Decision on the equivalence of the regulatory arrangements of ten non-EU countries enables Member States to put this into effect, where the audit regulator in the "equivalent" third country does not itself undertake or plan to undertake external monitoring of UK audit firms. Our current understanding is that for nine of the ten countries the regulator does not intend to apply their system of external monitoring reviews to UK auditors of companies listed on their markets. Where that is the case we shall disapply the requirement to monitor these third country audit firms[10], subject to confirmation from the regulator as to their intentions and to appropriate access to information on the results of monitoring by that regulator.

2.12. In the case of the USA, however, the Public Company Accounting Oversight Board (PCAOB) applies its system of external monitoring to all relevant audit firms, including non-US firms, though the PCAOB can rely "to a degree deemed appropriate" on the inspections conducted by oversight regulators in other jurisdictions. In the UK the PCAOB has undertaken a number of joint inspections of UK audit firms with the Oversight Board's Audit Inspection Unit (AIU) and now relies to a significant degree on the work of the AIU. Nevertheless, the

[9] The US Public Company Accounting Oversight Board (PCAOB) continues to find it very difficult or impossible to carry out its inspections in a number of jurisdictions around the world.

[10] In a very small number of cases, where the "equivalent" audit firm also audits a relevant issuer that is outside the scope of its home country regulator, we will impose an obligation to cooperate with any inspection we undertake of that specific audit engagement.

reciprocity requirement is not fully met as yet. We must therefore impose an obligation on the five US audit firms[11] registered in the UK to cooperate with any external monitoring of them that we carry out. We set out in 3.7 below specific proposals on how we should apply this in practice.

Previous Consultations on Third Country Auditors

2.13. We originally consulted in May 2008 on how to give effect in the UK to the requirements of the SAD on third country auditors. More recently, in May 2010, we consulted third country audit firms to see whether it would be both possible and effective in many cases to review relevant audit working papers in London, so as to avoid the need for expensive on-site inspections. The respondents raised a number of objections to this, in particular citing legal and other objections to transferring audit working papers, physically or electronically, out of the country. We concluded that this approach would not provide a general approach to external monitoring, though might still be worth exploring further in a small number of cases.

[11] These firms audit 29 companies that have issued securities admitted to trading on UK regulated markets.

Three – Proposals

3.1. The following summary table sets out the proposed overall approach and provides a framework in which to set the more detailed proposals which then follow.

	"Article 45"	**"Equivalent"**	**"Transitional"**
Requirement	**Member States must apply their system of external monitoring to audits of issuers in countries that are neither "equivalent" nor "transitional".**	**Member States can disapply the requirement to apply their system of external monitoring, to audits of issuers in "equivalent" countries, provided that the "equivalent" country does not apply external monitoring to UK audit firms.**	**In general Member States cannot apply external monitoring to audits of issuers in "transitional" countries.**
Approach	**We would seek to apply a system of external monitoring that is proportionate to the significance of the relevant issuers.** **(Paragraphs 3.2 to 3.4 below.)**	**(i) Where regulator in third country does not seek to inspect in UK, we would not inspect in the third country but rely on one another's external monitoring systems, with exchange of information. (paragraph 3.5)** **(ii) Where the regulator in third country carries out external monitoring of UK audit firms, (e.g. USA) firms in that "equivalent" third country will be required to cooperate with any external monitoring we might do, or do in cooperation with other EU regulators.** **(paragraphs 3.7)**	**N/A**

"Article 45" Auditors

3.2. In the light of the analysis in Section 2, and our assessment of the costs and benefits set out in Section 4, we consider that our system of quality assurance for "Article 45" auditors should reflect the following approach:

- we should focus our efforts on those audits of third country issuers of greatest significance for investors on UK regulated markets;
- the costs of carrying out an in-country inspection of the audit firm and relevant audit(s) by the Audit Inspection Unit (AIU) would in many cases be disproportionate to the significance to UK investors;
- we should not therefore follow a single template but should tailor the approach according to the significance of the issuers in a particular country, with the aim of proportionate and cost effective regulation;
- we should recognise that the practical and legal constraints set out at para 2.9 above will limit our ability to implement proposals fully in practice. It is therefore important that we provide investors with good information on our web-site on the extent of external monitoring that is possible.

Question 1: Do you agree with this overall approach?

3.3. In detail, we propose, in order of preference:

- where another independent audit regulator has carried out a quality assurance review of the auditor within the previous three years, to rely on that work, provided that we have access to the full inspection report and are able to discuss issues with the other regulator as necessary, and have access to supporting evidence and working papers[12]. In cases where the audit of an issuer assessed as of high significance would not otherwise be reviewed, we would ask the other regulator to review it; and, where that was not possible, consider our own review. We note in particular that the US PCAOB has inspected a small number of the relevant audit firms[13];
- to commission quality assurance reviews to our specification and subject to our oversight, from an external regulator, or a professional body that operates

[12] The other regulator will not necessarily have reviewed the audit of one or more of the issuers whose securities have been admitted to trading on a UK regulated market, though in some cases the other regulator may be willing to include the audit of a relevant issuer in the files it reviews.

[13] Under a Statement of Protocol between the Oversight Board and the PCAOB, each Party can share with the other public non-public information including reports on the outcome of inspections and relevant audit working papers.

internationally, where we judge that the body has the necessary skills to carry out the particular review in that country;

- where the issuers are of low to medium significance[14] and their auditors are subject to external monitoring by a local professional body, to seek to work with that professional body, for example requesting that they review a relevant audit engagement, subject to our oversight;
- in a small number of cases, where the audit firm is registered both in the UK and in another Member State, we should work with the other EU regulator, with a view to organising relevant quality assurance reviews jointly and sharing costs;
- in other cases where the overall country and issuer significance is assessed as of very low or of low significance[15], we should not, in normal circumstances, initiate an independent review on-site by the AIU. Instead we should assess available information on the issuers and auditors, including for example, where the firm is a member of an international network, any quality reviews carried out by the network. We should also consider asking the network to include a review of a specific relevant audit engagement to our specification.
- in other cases where the overall country and issuer significance is assessed as high or medium, we should try to carry out our own independent external monitoring. This should comprise a firm-wide review, where the firm audits 5 or more relevant issuers, and a review of at least one audit file. Where the firm audits less than 5 relevant issuers, we should offer it the alternative of a review of relevant audit working papers in London, where possible at the offices of the UK member of the network.

Question 2: Do you agree with these proposals on "Article 45" auditors? If not, what alternative(s) would you propose?

3.4. As noted above, taking forward these ideas in practice is likely to prove difficult in some cases, for one or more of the legal and practical barriers identified at 2.9 above. We propose therefore to test out the various proposals, taking into account the responses to this consultation, and then adjust our approach in the light of experience.

[14] See Annex A
[15] See Annex A

"Equivalent" Auditors

3.5. As discussed in paragraph 2.11 above, we do not propose in general to apply external monitoring to audits of issuers in "equivalent" third countries where the counterpart oversight body does not apply external monitoring to UK audit firms, subject to confirming the position.

3.6. As discussed in paragraph 2.12, in the case of the USA, where the reciprocity condition is not met, US audit firms registered as TCAs will be subject to a system of quality assurance, as described below.

3.7. We propose to follow broadly the same overall principle as the PCAOB, that is, to rely, to the extent we judge appropriate, on the PCAOB's inspections of the relevant US audit firms. In terms of the practical implementation of this approach, we propose the following:

- to review each year the key PCAOB findings from their most recent inspections of the relevant US firms, including both firm-wide procedures and audit engagements. The Statement of Protocol between the PCAOB and the Oversight Board provides for the sharing of otherwise confidential information;
- in the light of this, to raise points with the PCAOB arising from their work and, as necessary, obtain additional information from the PCAOB or the auditors;
- where appropriate, to ask the PCAOB to include relevant audit engagements in their sample of audit engagements to review; if this is not possible, for example because a particular audit is outside the PCAOB's scope, to consider the need to undertake our own review of that audit engagement.

Question 3: Do you agree with these proposals for "equivalent" registered TCAs, particularly for US audit firms? If not, what alternative(s) would you propose?

Reporting the Results of external monitoring of TCAs

3.8. External monitoring both helps audit firms to improve and provides the regulator with assurance that the TCA should continue to be eligible to sign the relevant audit reports for UK purposes. We propose therefore that the results of the system of external monitoring should be reported to a regulatory committee of the Financial Reporting Council (FRC), to consider whether there are issues for the TCA's registration, for example whether to attach additional conditions to a registration, or to withdraw a registration. Such an arrangement would be subject to an appeals process.

Question 4: Do you agree that the results of external monitoring should be reported to a regulatory committee of the FRC?

Charging for Quality Assurance Reviews

3.9. The Oversight Board needs to recover the costs of carrying out the programme of external audit monitoring. Whilst it is difficult as yet to put a figure on the overall cost, we would welcome initial views on the charging structure we should apply. A significant consideration to take into account is the wide variation in the size and nature of issuers, and in the ways in which we might carry out external monitoring.

3.10. In particular we would welcome views on two options:

- To keep the current structure of registration fees but charge separately to the registered audit firm the costs (direct costs + overheads) of carrying out the specific review.
- To structure the fees for the relevant third country auditors, so that there is a basic registration fee per firm plus a charge per year to the registered firm per year in respect of each relevant issuer[16]. The fee per issuer would also be tailored according to a measure of size of the client (e.g. audit fee). Under this approach the fee would be independent of whether or not we undertook a review in a particular year.

3.11. Under either option we would aim only to recover the costs of the system of external monitoring.

Question 5: What charging structure do you consider provides a sensible and fair basis for recovering the costs of external monitoring?

Transparency

3.12. Since the purpose of any external monitoring of the work of TCAs is to help UK investors, it is important to provide information on our web-site on the relevant issuers and TCAs, and on relevant reviews of the TCA that have been carried out. We shall also include an overall report on the results of this work in our Annual Report to the Secretary of State.

3.13. It is also important to be transparent as to the arrangements we have adopted and the limitations of such arrangements. We note for example that the PCAOB lists relevant clients of

[16] We would have to make sure that the structure of fees is in accordance paragraph 4 of Schedule 12 and paragraph 6 of Schedule 13 to the Companies Act 2006. Any fees order is also subject to the approval of the Secretary of State.

non-US audit firms registered with the PCAOB where the PCAOB is denied access to conduct inspections. We propose that we should similarly make clear the extent of out monitoring work

Question 6: Do you consider that the information we are proposing to publish is adequate for the needs of investors? If not, what do you propose?

Question 7: Overall, do you consider that these proposals for external monitoring provide the basis for a proportionate and practicable way of meeting the SAD requirements on quality assurance?

Four – Preliminary Regulatory Impact Assessment

What is the problem under consideration?

4.1. The Statutory Audit Directive ("SAD"), adopted by the European Union in May 2006 and transposed into law in the United Kingdom from April 2008, requires that in certain circumstances Member States apply their system for the external monitoring of audit work to third country auditors and the relevant audit engagements. This requirement applies for the most part where there is either no equivalent system of audit regulation and external monitoring in the third country, or no plans to introduce such a system. The regulation of third country auditors is one of the responsibilities delegated to the Professional Oversight Board. The current list of countries with relevant issuers and auditors is included in Annex A.

What are the policy objectives and the intended effects?

4.2. The overall objective is to apply a system of external monitoring to the relevant third country audits and auditors that meets the EU requirements and under which the regulatory costs this imposes are proportionate to the significance of the issuers with securities admitted to trading on UK regulated markets and to the benefits for UK investors.

What policy options have been considered?

4.3. 'Do nothing' is not an option, as this does not enable us to meet the statutory regulatory requirements resulting from the Statutory Audit Directive.

4.4. We considered the option of carrying out external monitoring on the basis that relevant audit working papers would be sent by the audit firms for review in London. However, we concluded that this was not a realistic option following a previous consultation with third country audit firms, because almost all said that were either unable (because of local laws) or unwilling (partly for reasons of risk management) to transfer audit working papers out of the jurisdiction.

4.5. We have considered two other options:

OPTION 1

Apply a system of external monitoring, under which directly-employed staff would inspect each third country audit firm within scope on a three year cycle. The inspection would

comprise a review of an audit file in all cases, and in addition a review of firm-wide procedures where the audit firm undertook five or more relevant audits.

Costs associated with Option 1

4.6. We have estimated the total costs of this option based on the following assumptions:

- The profile of firms to be inspected is as shown in Annex A
- An individual file review on average requires 15 man days (10 days on-site); a review of firm-wide procedures 20 days (15 days on-site).
- Costs of inspecting a dispersed population of audit firms in a wide range of non-equivalent countries around the world (see Annex A) are much higher than those for an equivalent UK inspection. In particular the daily staff cost is 50% above the equivalent UK rate.
- We are able to overcome the difficulties and restrictions on carrying out external monitoring in practice, set out in para 2.9.

4.7. On this basis, we estimate the costs of a three year cycle for 31 audit firms (with 43 relevant clients) would be as follows:

	Number of days/reviews	**Rate**	**Cost over three years**
31 File reviews @ 15 days	465 days	£1,500	£698,000
3 Firm-wide reviews (20 days)	60 days	£2,000	£120,000
Travel costs **Overseas subsistence** **Organisational support.** **Public reporting** **TOTAL COST**	31 reviews 345 days	£5,000 £200	£155,000 £69,000 £100,000 £50,000 **£1,182,000**

4.8. We estimate the total cost of Option 1 is in the order of £1.2 million over three years. This equates to an average cost per audit firm of £13,000 per year, and an average cost per issuer of £9,500 per year.

Benefits Associated with Option 1

4.9. It is difficult to put a monetary value on the benefits to investors of undertaking such a programme of external reviews. We have no evidence at present that investors would place a significant value on such a programme. It is likely that investors place some reliance on the fact that a security is admitted to trading on a UK market. But it is difficult to assess what additional benefit investors would derive from Option 1. However:

- The benefits (in terms of raising audit quality and increasing investor confidence) are likely to be extremely small in relation to issuers classified as of low significance
- Whilst the benefits are likely to be significantly greater in respect of reviews of auditors of issuers classified as of high significance, overall, given the London market capitalisation of the relevant securities, the benefits are likely to be small compared to the benefits of the AIU external monitoring of UK auditors of listed companies.

4.10. We **conclude** that on any reasonable assumptions the costs of Option 1 will substantially exceed the benefits.

OPTION 2

Apply the 'tailored' approach set out at para 3.3 above, so that the scope and manner of external review is in proportion to the significance of the issuer and the auditor. In particular by cutting out on-site reviews of auditors of low significance issuers, but retaining such reviews in the most significant cases, there will be a much closer relationship between the resources expended and possible benefits.

Costs associated with Option 2

4.11. The total costs will be considerably lower than those for Option 1 but still substantial. In broad terms the costs of monitoring audits of low significance issuers will be very much reduced, whilst for audits of high significance issuers they will be similar to those under option 1, with others somewhere in between.

4.12. There are too many variables to calculate a precise figure but overall we estimate that the costs will be of the order of two thirds of the costs of Option 1, or roughly £800,000 over three years.

Benefits Associated with Option 2

4.13. The benefits for investors will be lower than under Option 1 but, in our assessment, not substantially so. By targeting expensive direct inspection resources on high significance issuers, and finding other, more proportionate, ways of reviewing low significance issuers and auditors, we would expect largely to retain the 'Option 1' benefits for investors.

4.14. We **conclude** that the costs under option 2 may still outweigh the benefits for investors but that both the overall balance between costs and benefits, and the balance in individual cases, is much closer under Option 2 than under Option 1.

Question 8 Do you have any comments on the assessment of costs and benefits? We should welcome in particular the assessment of UK investors on the value of benefits that might flow from the two options for external monitoring reviews.

Five – Consultation Questions and How to Respond

Consultation Questions

Question 1: Do you agree with the overall approach set out in para 3.2?

Question 2: Do you agree with the proposals on "Article 45" auditors set out in para 3.3? If not, what alternative(s) would you propose?

Question 3: Do you agree with the proposals for "equivalent" registered TCAs, particularly for US audit firms set out in in paras 3.5 to 3.7? If not, what alternative(s) would you propose?

Question 4: Do you agree that the results of external monitoring should be reported to a regulatory committee of the FRC? (para 3.8)

Question 5: What charging structure do you consider provides a sensible and fair basis for recovering the costs of external monitoring? (paras 3.9 to 3.11)

Question 6: Do you consider that the information we are proposing to publish, as set out in paras 3.12 and 3.13, is adequate for the needs of investors? If not, what do you propose?

Question 7: Overall, do you consider that these proposals for external monitoring provide the basis for a proportionate and practicable way of meeting the SAD requirements on quality assurance? (After para 3.13)

Question 8 Do you have any comments on the assessment of costs and benefits in Section 4? We should welcome in particular the assessment of UK investors on the value of benefits that might flow from the two options for external monitoring reviews.

How To Respond

5.1. Please respond by Friday 25 May 2012 at the latest. Earlier responses would be appreciated.

5.2. Responses should be sent by e-mail if possible to

5.3. Alternatively you may send comments by post to:

John Grewe
Professional Oversight Board of the FRC
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

5.4. Comments will be made publicly available on the Oversight Board section of the FRC web-site (www.frc.org.uk/pob) unless respondents specifically request otherwise. If you send an e-mail response which includes an automatically generated notice stating that the content is to be treated as confidential you should make it clear in the body of your message whether or not you wish your comments to be treated as confidential.

Annex A: Analysis of "Article 45" Third Country Auditors registered as at December 2011

We have made a preliminary classification of the significance of each issuer - as "high, medium, or low", based on available information on a number of factors, for example: (i) market capitalisation in London (ii) group earnings and (iii) level of audit fee, (iv) extent of trading, (v) value of debt traded. Following the table we give examples of issuers in each category.

The country significance reflects the number of issuers and their significance.

"Article 45" Third Country Auditors Registered as at December 2011				
Country	**No. of Firms**	**No. of Issuers**	**Significance of Issuer** (High, medium, Low)	**Overall Country Significance** (Very low, low, medium, high)
Argentina	2	2	H,L	M
Bahamas	1	1	L	VL
Bahrain	2	4	H,L,M,M	H
Barbados	1	1	L	VL
Chile	1	1	M	L
Curacao	1	1	L	VL
Georgia	1	1	M	L
Jordan	1	1	H	M
Kazakhstan	3	15	6H, 3M, 6L,	H
Kenya	1	1	L	VL
Kuwait	1	2	H,M	M
Lebanon	3	4	4M	H
Maldives	1	0	n/a	n/a
Morocco	1	1	L	VL
Nigeria	3	1	H	M
Oman	1	1	L	VL
Pakistan	2	1	H	M
Papua New Guinea	1	1	H	M
Qatar	1	1	M	L
Saudi Arabia	2	1	M	L
Ukraine	1	0	n/a	n/a
Zimbabwe	2	2	L,L	VL

Examples of low significance issuers

Company A (Low Significance)	
Sector:	Agriculture
Turnover	£18M
Net Assets	£18M
Audit Fee:	£33K
Market cap of shares in London	£5M
Traded:	Very rarely
Other points :	51% subsidiary of UK listed company.

Company B (Low Significance)	
Sector:	Financial Services
Turnover	£780M
Net Assets	£450M
Audit Fee:	£1.8M
Market cap of shares in London	Only 0.47% of shares held by UK investors
Traded:	Hardly at all
Other points :	Value of holdings in London said to be around £1M

Examples of medium significance issuers

Company C (Medium Significance)	
Sector:	Telecommunications
Turnover	£4.5 billion
Net Assets	£16.9 billion
Audit Fee:	N/A
Money raised	£319 million of debt
Traded:	Little trading
Other points :	Held by institutions

Company D (Medium Significance)	
Sector:	Banking
Turnover	£141m interest income
Net Assets	£1.3 billion
Audit Fee:	$230K
Market cap on shares in London	£43M (GDRs)
Traded:	
Other points :	

Examples of high significance issuers

Company E (High Significance)	
Sector:	Agricultural Products
Turnover	£300M
Net Assets	£350M
Audit Fee:	£260K
Market cap of shares in London	Approx. £360M (28% of equity)
Traded:	N/K
Other points :	

Company F (High Significance)	
Sector:	Banking
Turnover	-
Net Assets	£1.1 billion
Audit Fee:	£124K
Market cap of shares in London	£2.2 billion (GDRs)
Traded:	N/K
Other points :	

Financial Reporting Council
5th Floor
Aldwych House
71-91 Aldwych
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Tel: +44 (0)20 7492 2300
Fax: +44 (0)20 7492 2301
Website: www.frc.org.uk