Annex 2

The clear majority of investors support ten year tender periods

1 The CC states that "*[o]n the appropriate timeframe, the views of investors were mixed*".[1] This is not a fair reflection of those investors' views referred to in the PDR. The clear majority of investors – both in aggregate number but more importantly by the value of funds invested - are in favour of a ten year period. Only a minority of investors support a shorter period, of which only two investor bodies and a small number of investors favoured a five year period.[2] In particular, the main investor representative bodies reported that the majority of their members were in favour of a ten year period:

(a) The Investment Management Association (IMA): The trade body for asset managers who manage £4.2 trillion of assets in the UK (as at December 2011) stated this during the consultation period[3] and reiterated this position on the release of the PDR:

"*[W]hilst a significant minority of investors support tendering every five years, as proposed by the Competition Commission, for the majority this is too frequent a timescale. The tendering process takes up a significant level of resource, time and cost for both businesses and audit firms, and with any new assignment there is likely to be a period of learning. The majority of investors favour the FRC's proposal for tendering every 10 years.*"[4] [emphasis added]

(b) The Association of British Insurers (ABI): With over 300 member companies, accounting for 90% of the UK insurance market (which is responsible for investments of £1.8 trillion in 2011, being 26% of the UK's total net worth), the ABI also supports ten years.[5]

2 The CC has refused our request to publish a detailed breakdown or even a complete summary of the results of the investor questionnaire, instead summarising a limited number of responses in the PDR. The CC has confirmed that 21 investors responded to this questionnaire, but their summary of views in the PDR refers to only four investor questionnaire responses in relation to remedy 1 (those shown in red in footnote 6) and another 14 investor questionnaire responses in respect of other points (those shown in blue in footnote 6)[6].

3 The table overleaf summarises stakeholders' views received by the CC during the course of this investigation on the appropriate period between tenders. It illustrates that the clear majority of stakeholders – across all constituent groups, including investors - favour a period of ten years between tenders. In our view, the reason there is such a strong market consensus to support ten year tendering over five years is because this achieves the best balance in terms of effectiveness and cost.

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1 PDR, paragraph 3.24.

2 Baillie Gifford; National Association of Pension Funds (NAPF); Newton Investment Management; and a coalition of six investors and a body representing 56 local authority pension funds.

3 See the IMA response to Remedies Notice, page 4.

4 See the press release issued by the IMA on 22 July 2013: www.investmentfunds.org.uk/press-centre/2013/press-release-2013-07-22/

5 See ABI response to Remedies Notice, paragraph 12: "*supported the recent changes to the FRC's UK Corporate Governance Code to require, on a 'comply or explain' basis, FTSE350 companies to put their audits out to tender every ten years. We believe this strikes the right balance and could improve competition.*"

6 Of the list of recipients of the investor questionnaire received from the CC, those highlighted in red were referred to in relation to remedy 1; those in blue were cited elsewhere in the PDR; and those in black were not referred to (making it unclear whether or not they responded to the questionnaire): Aberdeen Asset Management, AllianceBernstein, Alliance Trust Asset Management, Artemis Investment Management, Aviva, AXA Investment Managers UK, Baillie Gifford, Barclays Wealth Management, Barings Asset Management, BlackRock, Brewin Dolphin, Canada Life Asset Management, F&C Investments, Fidelity Worldwide Investments, Friends Life, Henderson Global Investors, Hermes, Invesco Perpetual, JPMorgan Asset Management, Kames Capital, Legal and General Investment Management, Local Authority Pension Fund Forum, M&G Investment Management, MFS Investment Management, Newton Investment Management, Norges Bank Investment Management, Rathbone Unit Trust Management, Royal London Asset Management, RPMI (Railpen), Schroder Investment Management, Scottish Widows Investment Partnership, Standard Life Investments, Threadneedle Asset Management, UBS Global Asset Management (UK), Universities Superannuation Scheme, ABI, CRUF, CFA-UK, Governance for Owners, IMA, NAPF, ShareSoc, PIRC.

Table: Market consensus in support of ten year tender periods

	5 years	6 – 9 years	10 years	10 years + / Other[7]
Investor Representative Bodies	• USS[8] • UKSA[9]	• NAPF	• ABI • IMA	
Investors[10]	• Baillie Gifford • Legal & General • Newton Investment Management		• AXA Investment Management • BlackRock[11] • Hermes • Kames Capital • Royal London Asset Management • Investor [✂][12] • Investor [✂][13]	
Regulators			• FRC	• Canadian Public Accountability Board • FSA
Companies[14]	• Company K (CFO)[15]	• Nestor Advisors • Company K (ACC) • Company P (GFD)[16] • Company Q • Company T (ACC)[17] • Company W (CAO)[18] • Company U (ACC)[19]	• Aggreko • Barclays • Berkeley Group Holdings • BHP Billiton • BT Group • GlaxoSmithKline • Independent Audit Limited • Lloyds Banking Group • RBS • Rexam • SABMiller • Smiths Group • Smith & Nephew • Tate & Lyle • Company G • Company L • Company N • Company O • Company P (ACC) • Company R • Company S • Company T (GFD) • Company U (GFD) • Company V • Company W (ACC) • Company [✂][20]	• SEGRO • Company M • Proxima
UK Industry Bodies		• Chartered Financial Analyst Society of the UK	• 100 Group • BBA • CBI • GC 100 • ICAS • ICAEW • CIMA	• Loan Market Association • NAO
Non UK Industry Bodies			• South African Institute of Chartered Accountants	• AFME • Chartered Professional Accountants of Canada • Confederation of Swedish Enterprise and FAR • Hong Kong Institute of Certified Public Accountants • Institute of Chartered Accountants Australia • International Federation of Accountants
Individuals			• Simon Laffin[21]	• Prof. Dr. Annette Köhler; Keith Potts; Tony Shearer; Martin Thornhill; Garry Watts; Nick Land

7 Please note that this column includes parties who did not express a view as regards timing of tenders.
8 Together with a coalition of six investors and a body representing 56 local authority pension funds. This group, together with L&G and Newton Investment Management, support a period of 5-7 years (PDR, A3(1)-24).
9 UKSA did not express a specific view but indicated strong support for USS' position (i.e. for 5-7 years).
10 In the cases of Baillie Gifford, Newton Investment Management, AXA Investment Management, Royal London Asset Management and the two redacted investors, the source for this evidence is their responses to the investor questionnaire which were selected by the CC for inclusion in the summary in PDR, A3(1)- 23/24.
11 Blackrock did not express a specific view but indicated support for the IMA's position.
12 Investor [✂] was not clear why tendering more frequently than every 10 years would create a notable benefit (PDR, paragraph 73, A3(1)-23).
13 Investor [✂] said it was not obvious that 5 or 7 year period was the best period (PDR, paragraph 74, A3(1)-23).
14 In the cases of Companies K, P, T, U and W there was some difference in opinion between the ACC/GFD/CFO/CAO (as relevant).
15 The CFO thought holding a tender every 5 years was about right, while the ACC would recommend going to tender every 5 to 10 years.
16 The GFD would not want to tender more frequently than every 6 years and cited the potential for a negative message to shareholders, while the ACC thought 10 year 'comply or explain' FRC rule was satisfactory for the company.
17 The ACC, unlike the GFD, thought a 6 year period between tenders was reasonable.
18 The CAO considered tendering more frequently than 7 to 10 years would create substantial costs, while the ACC wanted to give the FRC regime more time to take effect.
19 The ACC wanted the AEP rotation to be 7 years and auditor tendering to be linked, while the GFD thought tendering every 10 years was reasonable.
20 Company [✂] supported the new FRC provisions, paragraph 11 (PDR, paragraph A3(1) –3).
21 Chairman of a UK listed company and ACC for two UK listed companies.