

**Securities & Exchange Commission – Release No. 33-9862; 34-75344**

**File#:S7-13-15 POSSIBLE REVISIONS TO AUDIT COMMITTEE DISCLOSURES**

To the Office of the Secretary: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

By way of background, Hermes is one of the largest asset managers in the City of London, and is wholly owned by the BT Pension Scheme, the UK's largest corporate pension scheme. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from around Europe and the world, including PNO Media (Netherlands), VicSuper of Australia, Canada's Public Sector Pension Investment Board, the UK Environment Agency, and the UK's Lothian Pension Fund (only those clients which have expressly given their support to this response are listed here). In all, Hermes EOS advises clients with regard to assets under advice worth a total of over \$200 billion.

Audit quality is an important issue for our clients. Without good quality audit, it is harder for our clients and other investors to assess the quality of the financial statements of the companies on which they make investment decisions. Current audit and audit committee reporting provides little insight into the quality of the audit and we are therefore pleased that the PCAOB and SEC are consulting on audit and audit committee related matters.

We would like to make the following points in relation to the consultation:

As the Commission has rightly noted, other jurisdictions have explored expanded reporting with respect to audit committees. We find the approach taken by the UK Financial Reporting Council (FRC), which adopted amendments to its Corporate Governance Code that require a separate section of the annual report that describes the work of the audit committee in discharging its responsibilities as being particularly valuable and beneficial to investors.

Among the expanded disclosures now mandated by the FRC as part of corporate annual reporting which we would like the Commission to also consider are discussions around: the significant issues considered in relation to the financial statements and how they were addressed; how the audit committee assessed the effectiveness of the audit process; the approach to appointing the auditor and how objectivity and independence are safeguarded relative to non-audit services; as well as information on the length of tenure of the current audit firm and when a tender was last conducted. We find these type of specific disclosures by the audit committee to be of significant benefit to investors in assessing the overall performance of the audit committee.

The International Auditing and Assurance Standards Board (the "IAASB") has also acknowledged the merits of enhanced disclosure around the activities of the audit committee. Similarly an amendment to the Directive on Statutory Audits adopted by the European Union in April 2014 requires that the audit committee explain to the issuer's board how the auditor contributed to the integrity of the financial statements and how the committee assessed threats to the auditor's independence and implemented appropriate safeguards, and also requires the audit committee obtain a detailed report from the auditor on the results of the audit as part of the annual reporting process. Similar transparency requirements for US issues would provide meaningful benefits for U.S investors.

As the Commission is aware, the PCAOB is also currently engaged in standard-setting initiatives that could result in additional information being disclosed related to the auditor and its work. One project has been exploring a requirement that the auditor disclose, in the auditor's report, the name of the engagement partner as well as the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

We welcome the idea that the audit partner is identified publicly. We believe that, notwithstanding protestations to the contrary, such public identification of the audit partner provides one further small measure of accountability for audit quality to a senior person within the audit firm who has led the audit. Such additional accountability provides a degree of additional comfort to our clients and other users of the audited reporting.

We would prefer that the identification of the audit partner is contained within the audit report as this is the most accessible and obvious place for such information to be held. If there are legitimate personal liability concerns that make this outcome more difficult to achieve, we are prepared to accept that this information is provided in other easy to access publicly available records if the personal liability concerns cannot be swiftly and effectively remedied.

We are not convinced that extending the disclosure regime to other entities achieves positive additional results and there are unintended consequences to the regime. The audit firm and the audit partner together with the audit committee should be the focus of any discussion on audit quality.

We believe that the audit-firm appointment and reappointment process should be more transparent and a discussion of it should be included in companies' annual reports, enabling shareholders to have a stronger basis for their voting decisions. We regularly find that auditors consider the company which they are auditing the client and refer to it in this way. From a practical perspective, the audited entity does appear to be the auditor's client: it hires the auditor and has the closest relationship with the audit team. However, we consider that the role of the auditor is not to work for the audited entity at all; its role is to carry out a function, mandated by law, for the shareholders. In general, the relationship of the auditor with the audited entity is mediated by the audit committee. This role is not universally well performed, and even where it is most audit committees will leave a good deal of the decision-making in the relationship to the finance staff.

We would note that it is not surprising that the typically non-binding resolution to ratify the audit firm's appointment or reappointment is almost always passed overwhelmingly in nearly all cases as the quality of the audit and the rigour of the audit committee's interaction with the audit firm is unclear from the current disclosure. It is false to conclude from the voting patterns that investors are content with the current situation: instead typically investors seek to support the board and do not normally have enough information to justify not doing so.

We need to challenge audit committees to perform their role more fully and clearly on behalf of shareholders, and empower them to do so, while at the same time requiring audit committees to justify and demonstrate the discharge of their duties on a regular basis. We believe that increased disclosure described will provide some degree of insight into how the audit committee and audit firm are performing their respective roles to the benefit of shareholders.

We appreciate the opportunity to provide input into the consultation. I would be glad to discuss any of the points above with you further on [REDACTED] or at [REDACTED].

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Darren Brady', written in a cursive style.

Darren Brady