



To,

08<sup>th</sup> August, 2019

**Ms. Nila Salil Khanolkar**

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**Sub: Consultative Paper on Policy Proposals with respect to Resignation of Statutory Auditors from Listed Entities**

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON POLICY PROPOSALS WITH RESPECT TO RESIGNATION OF STATUTORY AUDITORS FROM LISTED ENTITIES.**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 155,000 members in over 152 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals.

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we have proposed a few suggestions.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the various points are mentioned below:

**A. Details of our Organisation:**

1. **Name:** Indian Association of Investment Professionals (CFA Society India)
2. **Contact number:** +91 98196 30042
3. **Email address:** [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)
4. **Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051



**B. Key Contributors:**

1. Mr. Ashwini Damani, CFA, CA
2. Mr. Ankur Kulshrestha, CFA, FRM, FCA
3. Mr. Prakash Saraff, CFA
4. Mr. Nilesh Saha, CFA

**C. Suggestions / Comments:**

<b>Name of Organisation:</b> Indian Association of Investment Professionals (CFA Society India)			
<b>Sr. No.</b>	<b>Issues</b>	<b>Suggestions</b>	<b>Rationale</b>
1.	Minimum period of service	While the policy proposal deems the auditors must serve till the end of the nearest quarterly reporting, at the minimum, the Society is of the view that auditors must be mandatorily made to audit for 12 months	We believe that this clause will ensure continuity and maintenance of auditing quality
2.	Quantification of the value	The auditor should also be requested to quantify wherever possible the value of transactions that has not been certified as "True and Fair" status and its impact on the Profit and Loss Statement	This will offer a picture to the investors regarding the extent and materiality of impact vis a vis the transactions that has escaped audit
3.	Market Disclosures	The letter received from auditors should be disclosed to the stock exchanges and prominently displayed on the website of the individual companies	Strengthening market disclosures will help investors gauge the implications of auditor's comments and deepen market integrity
4.	Additional Disclosures	<p>1. Included in Annex B disclosure format, the Audit Committee and auditors should be made to disclose the following questions:</p> <ol style="list-style-type: none"> <li>a. How many times the auditors have resigned as Statutory Auditors from different companies in the past 5 years?</li> <li>b. How many times have the Statutory Auditor resigned from the company in the past 5 years?</li> </ol> <p>2. The Management may be forced to explain and elaborate on the causes which the auditor quoted in its reasons to resign</p>	<p>1. Strengthening market disclosures will help investors gauge the implications of auditor's comments and deepen market integrity</p> <p>2. Currently the Management of the company is not mandated to explain the scope of potential oversight which led the auditor to resign and/or if those areas under supervision or not. Ensuring that the Management reveals its own corrective steps will ensure the relevant stakeholders have an assurance about the quality of corporate governance</p>

**Addendum: International Best Practices**



S.No	Country	Regulator	Notable Practice
1.	Singapore	Accounting and Corporate Regulatory Authority	<p>Consent mandatory when auditors of “public interest companies” resign between annual general meetings.</p> <ul style="list-style-type: none"> <li>Public Interest Companies are defined as companies listed, or going to be listed in a Singapore exchange or a securities exchange outside Singapore</li> <li>Selected financial institutions like broker-dealers, banking and payment system etc.</li> <li>Large charities or institutions of public character, which are companies</li> </ul>
2.	Australia	Australian Securities and Investment Commission	Consent mandatory and permission filed via Form 342 when an auditor wishes to resign
3.	UK	Financial Reporting Council	<p>The auditor of a public interest company when ceases to hold office, must report a statement of the reasons to do so:</p> <ul style="list-style-type: none"> <li>The Company (s.519 of Companies Act 2006)</li> <li>FRC (s.522 Companies Act 2006)</li> </ul> <p>Public Interest Company is defined as any company which is listed, part of banking system or insurance sector</p>

If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA @ +91 98196 30042 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)

Sincerely yours,

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Director - Research and Advocacy Committee  
Indian Association of Investment Professionals, Member Society of CFA Institute