

**30<sup>th</sup> June 2008**

## **ISC statement on auditor liability limitation agreements**

The Institutional Shareholders' Committee (ISC) has today published a statement explaining what institutional investors will expect from companies seeking shareholder approval for any agreements they want to make to limit their auditors' liability. The statement has been issued to coincide with the publication of the Financial Reporting Council's "Guidance on Auditor Liability Agreements".

The ISC statement says:

- Agreements should be proportionate, and provide a limit for liability that is fair and reasonable;
- Companies should recognise that they are not obliged to enter into agreements if they are not suitable;
- Companies should justify to shareholders the benefits of concluding agreements in advance of putting them to a general meeting vote.
- When audit committees discuss these agreements with auditors, they should seek to assure themselves that audit quality will be preserved and enhanced;
- Shareholders will not want to see their preference for proportionate liability agreed at holding company level undermined by other forms of agreement lower down the group structure; and
- Companies should use the specimen principle terms for agreements which have been laid out by the FRC.

Jeremy Tigue, Chairman of the ISC said,

*If the issues set out by the ISC are addressed, particularly the need for proportionality, then auditor liability agreements will be far less likely to raise concerns with institutional investors, although, of course, each agreement will have to be judged on its individual circumstances and merits.*

*We hope that making the needs of institutional investors clear will mean that time and expense will not be wasted by companies putting forward proposals which have little prospect of finding favour with shareholders.*

**- ends -**

## Notes to editors

The Institutional Shareholders' Committee (ISC) is comprised of the Association of British Insurers (ABI), The Association of Investment Companies (AIC), the Investment Management Association (IMA) and The National Association of Pension Funds (NAPF).

The full "Institutional Shareholders' Committee Statement on Auditor Liability Limitation Agreements" can be accessed by clicking on the following link:

<http://www.institutionalshareholderscommittee.org.uk/library.html>

The "FRC Guidance on Auditor Liability Limitation Agreements" can be accessed by clicking on the following link:

<http://www.frc.org.uk/about/auditorliability.cfm>

Further details of the role of the ISC and its constituent members can be found on the ISC website at:

[www.institutionalshareholderscommittee.org.uk](http://www.institutionalshareholderscommittee.org.uk)

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