



THIRD COUNTRY AUDITOR REGISTRATION CONSULTATION ON PROPOSED AMENDMENTS TO THE FRC'S POLICY

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ICAEW welcomes the opportunity to comment on the Third Country Auditor Registration Consultation on proposed amendments to the Financial Reporting Council (FRC's) policy published on 16 February, a copy of which is available from this [link](#).

We recognise the temporary and narrowly framed nature of the proposed amendment, which will not affect many companies, and, overall, we support the government's growth agenda.

In our response we have focused on parts of the amendment that we believe still need some clarity. We have considered the interaction with FCA prospectus requirements, the implications for ISAs (UK) within the UK audit regime, the clarity of the proposed safeguards, especially those relating to investor understanding, and the importance of transparency in how the regime will be applied and monitored. Our recommendations are intended to support proportionality, regulatory clarity, and market confidence. As such we recommend:

- **Refresh the assessment of equivalence** considering the evolving international standards environment.
- **Enhance transparency** by publishing either:
 - a definitive list of foreign auditing standards recognised under the regime; or
 - the criteria and methodology used to determine equivalence.
- **Work with the FCA** to clarify whether prospectus level requirements would accept audits performed under Chinese Standards on Auditing (CSAs), ensuring the proposal delivers practical market benefits.
- **Consider the coherence of the UK audit framework**, reflecting on the continued role and proportionality of ISA-plus requirements in light of this amendment.
- **Provide clearer market guidance** on the distinction between regimes, their consequences, and how investors should understand and evaluate audits performed under different standards.
- **Define and report KPIs**, ideally on an annual basis, to monitor the functioning and impact of the temporary regime and provide ongoing transparency to stakeholders.
- **Commit to a post-implementation review** to ensure the amendment operates as intended and that any emerging risks or inconsistencies are identified early.

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The Proposal

1. We recognise the temporary and narrowly scoped nature of the proposed amendment to the FRC's Third Country Auditor (TCA) Policy. We understand that its intention is to address a perceived barrier that may currently discourage certain Chinese registered companies from selecting London as a listing venue. Stock Connect is expressly designed as an equity-based mechanism, used by a limited subset of eligible Chinese companies seeking international equity capital. Given this structure, the number of issuers currently affected by the proposed amendment is inherently small, making the practical impact of the amendment limited.
2. However, achieving a proportionate balance between the FRC's dual responsibilities, serving the public interest while supporting broader UK economic growth, can be challenging. Temporary changes, if not carefully designed, implemented and reviewed, may create unintended consequences, particularly with respect to both investor confidence and protection if the audit is perceived to be carried out to a lower standard for some companies.
3. We have approached this consultation from a factual and analytical perspective. Rather than responding directly to the specific questions posed. We have highlighted considerations relating to proportionality, the effectiveness of the proposed safeguards, and the potential impacts on the wider market environment.

Competitiveness and Potential Barriers to UK Listings

4. London's global attractiveness is a core strength of its capital markets, and we recognise that maintaining competitiveness remains essential at a time when issuers may increasingly seek alternative listing venues due to shifting geopolitical conditions. Although this consultation addresses one specific perceived barrier, a wider reassessment of potential obstacles to listing in the UK would help ensure that London remains an appealing and well-connected international financial centre, and assist in understanding whether this particular barrier, or others, or a combination of factors, is influencing issuer behaviour.
5. We recognise that such an exercise is outside the scope of the FRC's specific task in defining the TCA regime, but from a stakeholder perspective a wider analysis of implications and safeguards would help give comfort that risks can be mitigated.

Potential Risks and Market Effects

6. There remains uncertainty about what is actually driving the relative popularity of other listing venues, and there is currently no empirical evidence to show whether the attraction of Switzerland or other jurisdictions operating Stock Connect routes is due, in whole or in part, to their acceptance of CSAs or whether other factors such as broader regulatory expectations, listing processes, or perceived market friction play a more significant role. Switzerland is often regarded as a low-friction, issuer-friendly environment, and it is not yet clear whether requirements around auditing standards are the predominant factor behind the disparity in listing numbers between Switzerland and the UK.
7. We therefore encourage further analysis to understand the extent to which auditing standards policy functions as a barrier to listing. At present, there is no publicly documented evidence demonstrating that the application of ISAs (UK) has deterred Chinese-registered entities from seeking a London listing, beyond the assertions made in the consultation itself.
8. The temporary amendment may, in due course, provide useful indicative evidence to inform this assessment and as such **the FRC should commit to a timely and properly informed post implementation review.**
9. In conjunction, it would also be useful **to undertake a refreshed assessment of equivalence to identify where any divergence between the UK and Chinese auditing regimes now lies and to offer stakeholders appropriate reassurance.** The consultation notes that the FRC previously assessed CSAs against ISAs and concluded that they were not equivalent, but no publicly available documentation of this review exists. As the auditing standards environment continues to evolve, a new equivalence assessment would be timely. ISA (UK) has been amended several times since the period referenced in the consultation, while it is unclear to

what extent corresponding updates have been made to CSAs. A re-evaluation would help ensure the UK's position remains current and evidence-based, and would provide stakeholders with additional confidence in the robustness of the FRC's approach, particularly if the temporary amendment is intended to inform any future statutory framework.

Potential Implications

10. The proposal raises an important wider question: even on a temporary basis, is the UK willing to allow a two-tier system in which UK-listed companies must continue to meet full ISA (UK) requirements, while certain overseas issuers may use non-equivalent standards such as CSAs? This could result in UK companies facing comparatively higher assurance demands and potentially higher audit costs, than some foreign competitors. While the consultation considers the risk of deterring Chinese issuers from choosing London, it does not consider the opposite risk: that UK companies may be discouraged from listing in the UK if they perceive the regime as more burdensome for domestic issuers. Given the UK's aim to strengthen London's competitiveness as a global capital market, this risk requires explicit consideration.
11. Separate from listing competitiveness, there may also be implications for competition within the audit market itself. If Chinese registered audit firms operating under CSAs gain a smoother route into providing assurance for UK capital markets than firms from other jurisdictions, this could be viewed as creating an imbalance in market access or regulatory expectations. Even if the overall effect is modest, perceptions of unequal treatment can influence market behaviour and stakeholder confidence, with potential consequences for UK auditors seeking access to third country markets.
12. A further consideration is how the FRC would respond if a significant audit failure or reporting concern were to arise in relation to a Stock Connect issuer. Without the usual UK-based inspection routes afforded under domestic audit supervision, any investigation or enforcement action may depend heavily on cooperation with Chinese regulators, including access to working papers and audit evidence. This could reduce the FRC's visibility, slow investigation and enforcement processes, or even constrain its ability to respond effectively. As such, the temporary regime introduces a potential oversight gap that would need to be managed closely.
13. While cross-border audit supervision already presents challenges, such as access to working papers and language considerations, the introduction of an alternative auditing standard adds an additional layer of complexity that may sit outside the existing knowledge and skills of FRC staff. Inspectors may require additional training to understand CSAs, their associated risks and the regulatory context in China. This represents a meaningful supervisory adaptation, yet the consultation does not address how such capability gaps would be mitigated.
14. Taken together, these implications underline the sensitivity of allowing the use of non-equivalent standards within the UK listed market. In this context, it is important that the FRC clarifies whether the proposed exemption is intended to remain a strictly exceptional, time-limited measure, or whether it signals the beginning of a broader policy shift towards accepting non-equivalent auditing standards more generally. Given the cumulative implications outlined above, clear articulation of intent is necessary to avoid unintended precedent and to give stakeholders confidence in the future direction of UK audit regulation.

Potential Implications - Equivalence & Transparency

15. In demonstrating implicitly that CSAs are not considered equivalent, the proposal highlights that the operation of the equivalence regime is opaque. The proposal relies on the TCA equivalence framework, yet that framework is not transparent, and the criteria used for such assessment are not published.
16. Stakeholders therefore cannot easily determine whether this represents a one-off policy accommodation or forms part of a coordinated new regulatory approach, within which it may set a precedent. ICAEW supports the International Auditing and Assurance Standards Board (IAASB) standards as the globally recognised baseline for audit quality. In this context, the absence of a publicly available list of foreign auditing standards recognised as equivalent, or a

clear framework explaining how such determinations are made, creates uncertainty about how decisions are being benchmarked against that global baseline. Greater transparency is therefore important to ensure that any recognition of other national standards is clearly understood and does not inadvertently give rise to perceptions of parallel or inconsistent standards.

17. **The FRC could enhance transparency by publishing either a definitive list of accepted foreign standards or the criteria applied when determining equivalence.** This would support regulatory certainty and ensure consistent, predictable treatment across jurisdictions.

Interaction with the Wider UK Regulatory Framework

Prospectus and Listing Requirements

18. The FRC's remit primarily concerns the auditing of annual accounts and the registration of statutory auditors. However, the proposal does not address whether audits conducted under CSAs would satisfy the requirements at the prospectus stage, where issuers must comply with FCA rules before securities can be admitted to a regulated market. FCA materials, including the PRM prospectus rules, checklists and scrutiny framework, continue to set detailed expectations for the financial information included in a prospectus and the standards under which it must be audited. In practice, prospectus financial information is often required to be audited to ISA equivalent standards, and it is not currently clear whether an audit undertaken under CSAs would meet those expectations for GDR issuers seeking admission in London.
19. Without clarification, there is a risk that issuers would continue to require an ISA-compliant audit opinion to list, even if the FRC permits CSAs for annual reporting under the TCA regime. **The FRC could work with the FCA to clarify whether prospectus level requirements would recognise audits performed under CSAs**, to ensure that the proposed amendment genuinely reduces barriers to market access for affected issuers.

ISAs (UK) and the Audit Framework

20. The proposal draws attention to the broader question of the coherence of the UK's auditing framework, particularly the role of the UK-specific enhancements within ISA (UK). The FRC has deliberately added a number of "UK-plus" requirements to the underlying international ISAs, either to meet UK legal obligations or to reflect domestic policy choices intended to strengthen audit quality. This approach implicitly acknowledges that, in certain areas, the international ISAs alone are not considered sufficient for the UK market. Against that backdrop, allowing the use of CSAs for certain overseas issuers raises legitimate questions about the continued necessity and proportionality of imposing these UK-plus requirements on all other market participants, including smaller UK companies, particularly at a time when proportionality is an increasingly important consideration within the UK audit framework.
21. Any reconsideration of UK-specific enhancements to ISA (UK) would, however, require careful thought, as several of these enhancements are designed to ensure compliance with UK law. Nonetheless, the proposal brings into clearer view a strategic question: whether it remains coherent for the UK to maintain an ISA (UK) framework, on the basis that international ISAs are deemed insufficient in some respects, while simultaneously permitting CSAs that are themselves not regarded as equivalent to the international ISA baseline. This prompts reflection on whether the UK should in future maintain approach or consider closer alignment with the international ISA baseline to support consistency, competitiveness and clarity for issuers. **The FRC may therefore wish to reflect on the wider coherence of the UK auditing framework** following conclusion of the narrow, time-limited amendment under consultation.

Safeguards & Investor Protection

22. An essential element of the proposed amendment is the package of safeguards designed to protect investor confidence, upholding market integrity and protecting consumers who may

invest in these entities and whose capital is at risk. These safeguards are central to ensuring that any temporary flexibility does not weaken the overall robustness of the UK's audit and regulatory framework.

23. However, we disagree that the proposed safeguard, namely, that investors and market participants will be able to distinguish between audits conducted under ISA (UK) and those conducted under CSAs, provides meaningful protection.
24. The assumption that institutional investors can reliably assess the differences between two complex auditing frameworks is unrealistic. There is no clear, publicly available information setting out the specific differences between ISAs and CSAs, and no analysis to help investors understand how Chinese standards compare to UK requirements. In the absence of such information, it is unreasonable to expect investors or other market participants to analyse or compare these standards themselves.
25. If the FRC is to rely on this safeguard it could take measures to **better inform the market on the distinction between the two regimes, potential consequences, and how the regulator supports market participants in assessing them.**

Success Metrics

26. The FRC has set out the criteria it will consider when determining whether the two-year, time limited amendment should be extended. These considerations effectively serve as the success metrics for the temporary regime and are an important part of assessing proportionality.
27. In our view, the central test of success should be whether the temporary amendment provides credible evidence that a *genuine barrier* to listing has been reduced, while maintaining audit quality, investor protection and supervisory effectiveness. The aim is not simply to record activity, but to determine whether the amendment has influenced issuer behaviour in a meaningful and safe way.
28. One practical way to observe behavioural change is through listing activity. Switzerland's experience, moving from four initial Global Depositary Receipts (GDR's) in July 2022 to around 15 during 2022–23 before reaching 17 by March 2024, illustrates that momentum can build quickly when market conditions are supportive. A clear increase in UK listings over the temporary period would therefore be a meaningful indicator that the amendment has addressed a real friction point. Conversely, if uptake remains unchanged, this may suggest that factors other than auditing standards requirements are the predominant determinants of issuer behaviour.
29. Alongside issuer response, success should also be judged on the absence of adverse effects. Effective safeguards, clear disclosures, and maintained supervisory visibility will be key indicators that the amendment has not introduced new risks to investor protection, audit quality, or enforcement capability.
30. It is also clear that the value of the temporary regime lies in the insight it provides. The outcomes should help clarify whether the barrier being addressed is substantive and whether a longer-term approach, such as the potential need for legislation, would be proportionate. Strong evidence of benefit, without any deterioration in audit quality or supervision, could help inform consideration of broader legislative reform. Conversely, limited uptake or unmanaged risks would suggest that a long-term statutory mechanism may not be warranted, at least not for this specific barrier.

The FRC could define KPIs by which it will report, ideally annually, on the performance of the regime.

ICAEW Regulatory Remit

31. From a regulatory perspective, as the largest recognised supervisory body for statutory audit in the UK, ICAEW exercises its regulatory responsibilities delegated from the FRC through the Professional Standards Department (PSD). This work is focused on maintaining confidence in the profession by enabling good practice, evaluating compliance, and enforcing expected

standards where necessary. These responsibilities relate primarily to UK incorporated entities and are carried out through monitoring, quality reviews, education, and disciplinary processes.

32. Within this framework, ICAEW's role sits alongside and supports the wider statutory arrangements overseen by the FRC. From a regulatory perspective, we have not identified any material impact that the proposed temporary amendment would have on ICAEW's functions. The amendment relates specifically to the use of Chinese auditing standards for third country audits associated with GDR listings on the London Stock Exchange, which fall wholly outside ICAEW's supervisory remit.