

The Board of the Netherlands Authority for the Financial Markets
P.O. Box 11723
1001 GS Amsterdam

13 October 2015

MH/JK/SM/131015

EY's response to AFM's "Dashboard 2015 - Change and Improvement Measures"

Dear Board,

On 7 September 2015, we received the draft report of the investigation with the preliminary conclusions and findings further to your above-captioned investigation. We shared our response to that draft report with you in writing on 28 September 2015. On 7 October 2015, you shared the final report of the investigation with us under embargo. This letter contains our final response.

1 Introduction

The report contains the results of the investigation conducted at EY by the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, "AFM") from May to August 2015. The investigation constituted the first phase of a multi-year review and pertains to the necessary measures set out in September 2014 by both the AFM and the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*, "NBA").

In its letter dated 1 April 2015, the AFM stated that the sector endorsed the urgent requirement to take fundamental steps to improve audit quality, with the AFM expressing the hope that a solid foundation had been laid for the necessary culture change and encouraging EY to focus above all on permanent changes of conduct and the associated future-oriented improvement measures, and on making these demonstrable. This approach struck us as positive. It seamlessly matches our own vision, sense of urgency and approach. At the same time, we are keenly aware of the refractory of the challenges and the persistence it calls for.

2 Vision of change and policies

During this phase of the investigation, the AFM assessed the extent to which EY satisfies the AFM's expectations from the *policy* perspective. It also investigated the progress made as to the measures prescribed by the NBA further to the NBA's report entitled "In the Public Interest" (*In het publiek belang*), our vision of change being a key point of departure in this respect. That vision of change aims to bring about the permanent changes of conduct in respect of quality as envisaged by EY. Moreover, the organizational context and preconditions are to enable and optimally facilitate such quality-oriented

conduct. Therefore, the initial improvement measures focus on that goal. Where this is concerned, we will not be truly successful until we are able to introduce those measures in full, with the right balance and at the proper speed.

Our Partners' and staff's quality, diversity and attitude are the key focus points within our vision. Systems, support and structures merely offer the requisite preconditions, apart from quite valuable checks and balances. However, our profession is and will be about people. Our reputation is no more than a promise towards our clients and society - one that is to be redeemed again and again by our teams and specialists.

This requires daring and decisiveness, in order to hence adapt not only our operating processes, but also the ambitions on the "Market" and "People" agendas, as the permanent delivery of first-class quality and the sustainable recovery of society's trust will never simply and solely result from a package of isolated measures within the quality agenda. Taking a critical look at our client base and continuing to develop and monitor the quality and potential of our Partners and staff are just as important.

3 Results

EY explicitly opted for a fundamental approach to quality improvement, to which culture [change] and changes of conduct, as well as offering the right context for quality-oriented acts, are central. This past year, we mainly invested in creating the requisite preconditions for change, as well as further developing and elaborating our vision of change, together with our staff. After all, we believe that, without receptive ground, nothing will grow. Therefore, we are not surprised that EY has as yet been unable to score a 5 overall, as desired. A total score of 4.1 makes us realize that we are on the right track, but have not yet quite reached the finish line of this first phase, and that a number of aspects of the investigation and our actions in response thereto still require further specification and elaboration.

The focus area for the section entitled "Rootcause analysis" (Modules 3 and 7) as described by the AFM depressed our total score to an important degree. Our causal analysis comprised a multitude of components and sources taken from varying perspectives. The rootcause analyses gave us sufficient information to be able to convert our vision of change into robust improvement measures for various layers of the organization, in which the interrelation between Quality, People and Market is a key point of departure. We feel positive that the AFM agrees to our vision of change.

The fundamental embedding of in-depth rootcause analyses is currently a key priority for us. We regard those rootcause analyses as permanent elements of our quality control system, driving factors for our learning capacity and key drivers for the change agenda. The structuring, documenting and formalizing of the procedures and processes that facilitate EY's Executive Committee to guarantee controlled operations has our attention in the short term.

Obviously, we are pleased to have scored a 5, the maximum score, on other modules. You have evaluated the way in which we have structured our internal supervision as "very positive". We concur with you that critical and independent supervision can only strengthen our organization. Our national and international networks are unique and of great added value for the quality of the audits conducted by EY. The recognition and acknowledgement thereof gives us a positive feeling. In addition, the way in which EY fleshes out its "relationship" with the environment was also assessed as "very positive". We have conducted an active stakeholder dialogue for some years now, to actually be able to learn from each other. Hence, this has optimally contributed to this score.

The way in which we make the learning organization concrete based on "activity-based learning", as well as our approach to the investigation of culture and changes of conduct geared to the problems at hand and the target group, constitute "best practice" within the sector, in the AFM's opinion.

4 Final comments

Our experiences with the AFM in its supervisory role in relation to the improvement and change agenda are positive. We regard the AFM as a critical supervisor that inspires us in our thoughts on change and encourages us to go about change in a decisive manner. At EY, the overall score achieved is recognized and acknowledged, and forms an incentive to continue pursuing the course taken.

Finally, therefore, we wish to thank the AFM for its report and collaboration. We will continue to implement our ambitions decisively over the upcoming periods, with the focus areas being given a prominent place, as set out in the report.

Yours sincerely,
Ernst & Young Accountants LLP

Jeroen F.M. Kamphuis

Michèle Hagers