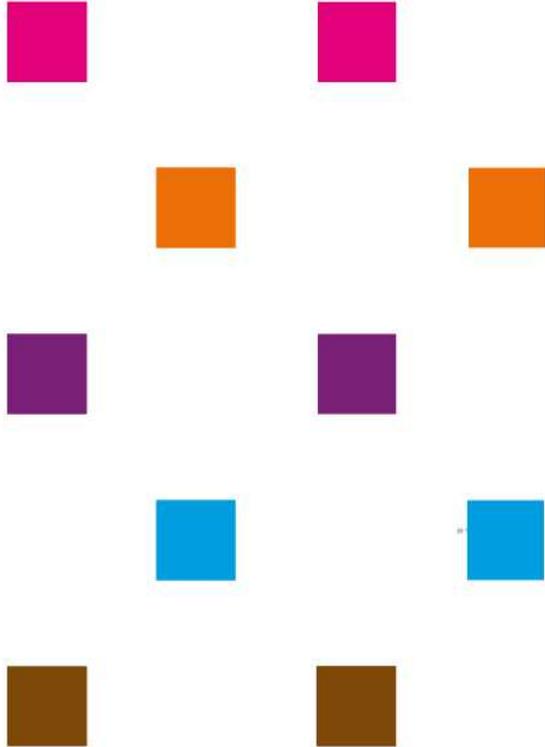




Presentation to the Competition Commission

13 February 2012

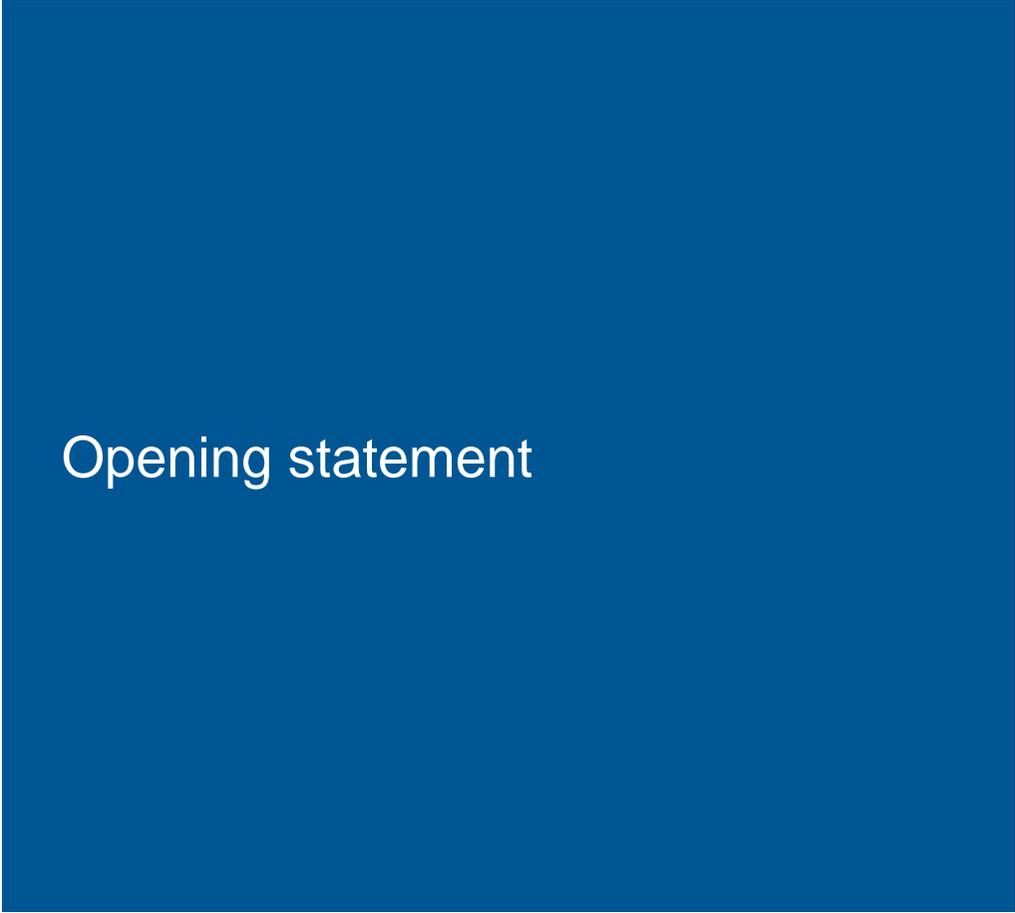
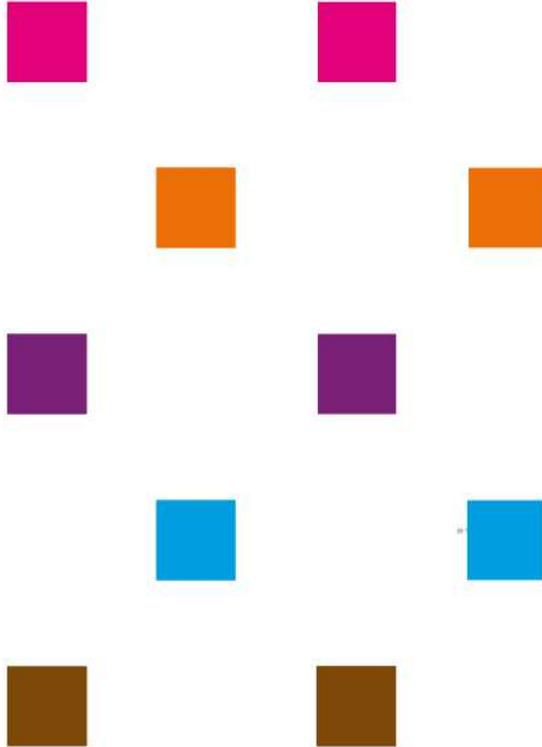


Our team today



Our team today

- David Evans National Senior Partner
- David Herbinet London Managing Partner and Head of PIE
- Anthony Carey Partner - Audit policy and Professional affairs
- Jenine Hulsmann Partner – Clifford Chance

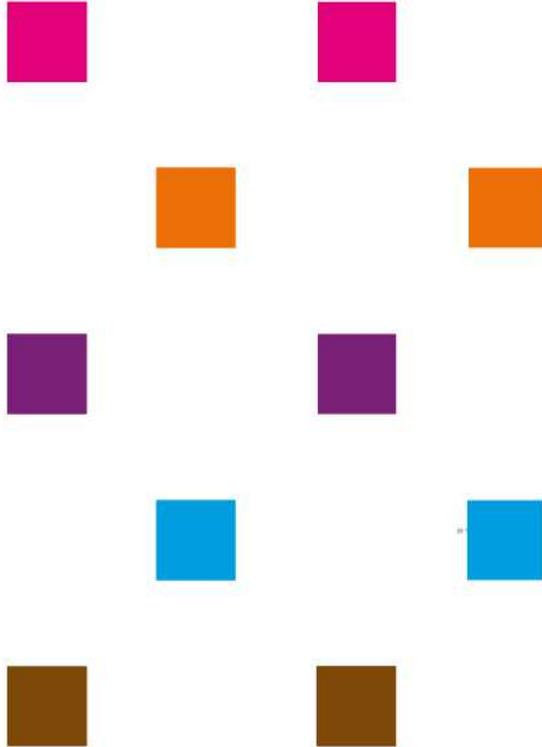


Opening statement



Presentation overview

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Mazars

A distinct player in the PIE market



Mazars: a distinct player in the PIE market

- An international, integrated and independent organisation
- Mazars provides **tailored solutions** to large international corporations, SMEs and individuals

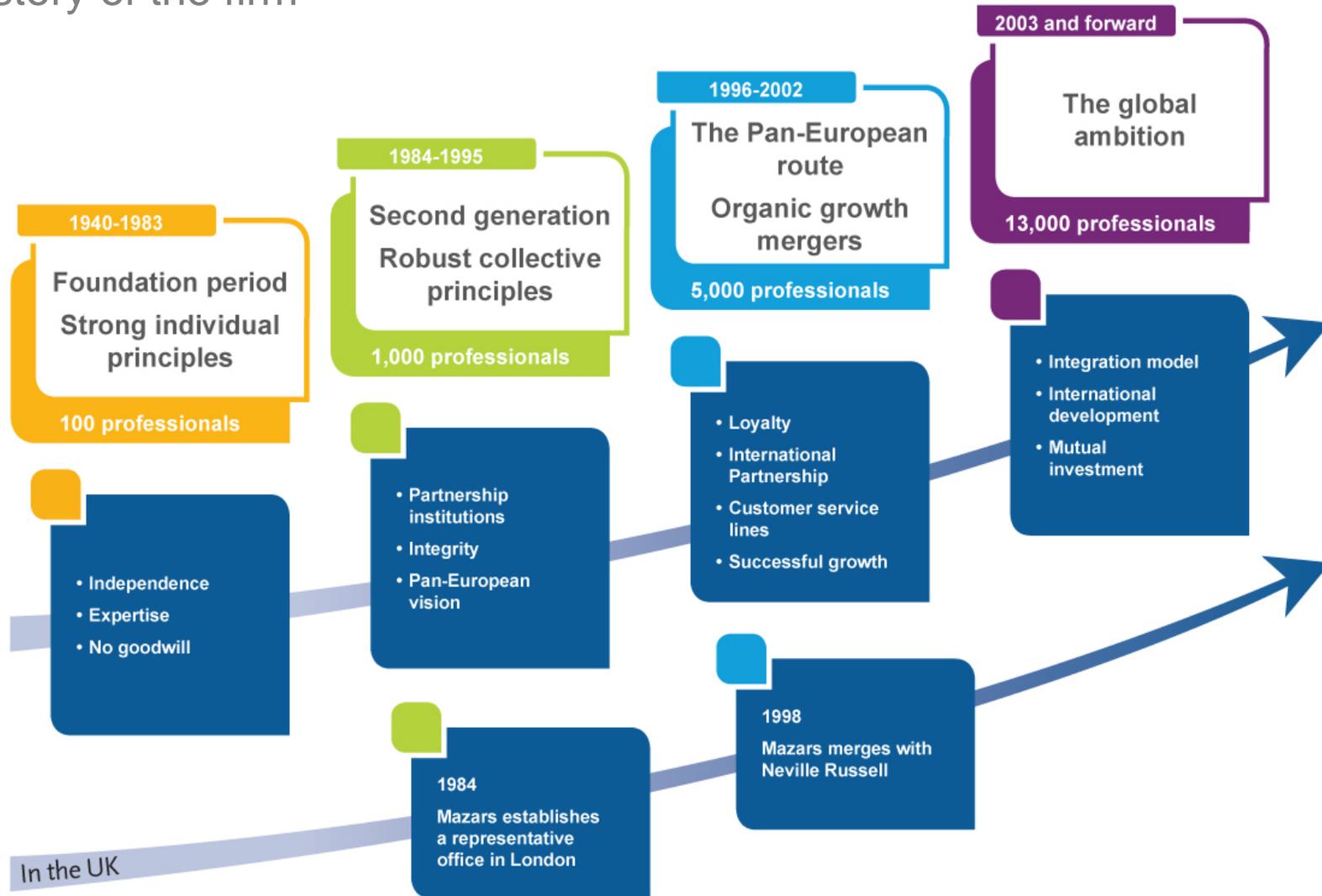


- As at 31 December 2011, Mazars is present in **68 countries** across five continents with over **13,000** professionals and a turnover of **€1bn**.
- Through **joint ventures and representative offices**, Mazars can operate in **another 17 countries**



Mazars: a distinct player in the PIE market

Brief history of the firm





Mazars: a distinct player in the PIE market



Strong values shared globally

Integrity

Ethics come before profit. We're loyal to our principles, our colleagues and our profession. We're not afraid to say 'no', for all the right reasons.

Responsibility

and sense of service

We treat our clients' challenges as our own. We always aim to deliver more than expected, outperforming ourselves. And we care about how our work affects our communities.

Diversity

Whether with clients or colleagues, human relationships are what drive us forward. Innovation comes from the healthy mix of cultures and perspectives. Difference is something we celebrate.

Technical Excellence

We adhere to technical excellence as a founding principal. We support our offices around the world to develop a common approach through dedicated programs and best practices sharing.

Independence

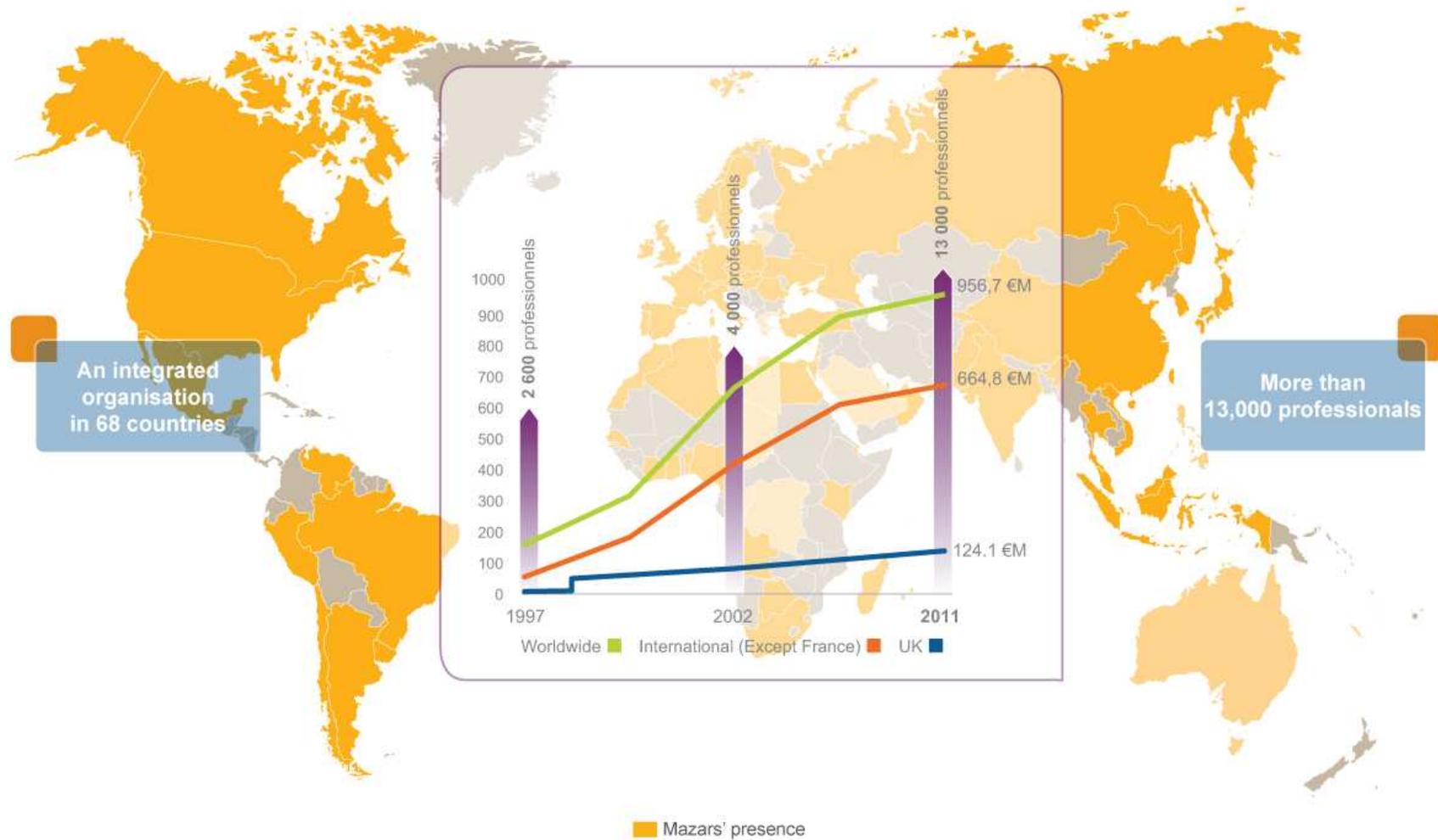
We always think independently, and in our roles as auditors and advisors we always act independently. And we see our clients as individuals, too. We take time to understand what makes each of them unique.

Continuity

We're in this for the long-term. As new faces come and go, as one generation hands over to another, our relationships, experience and knowledge survive. We learn from the past, but look to the future.



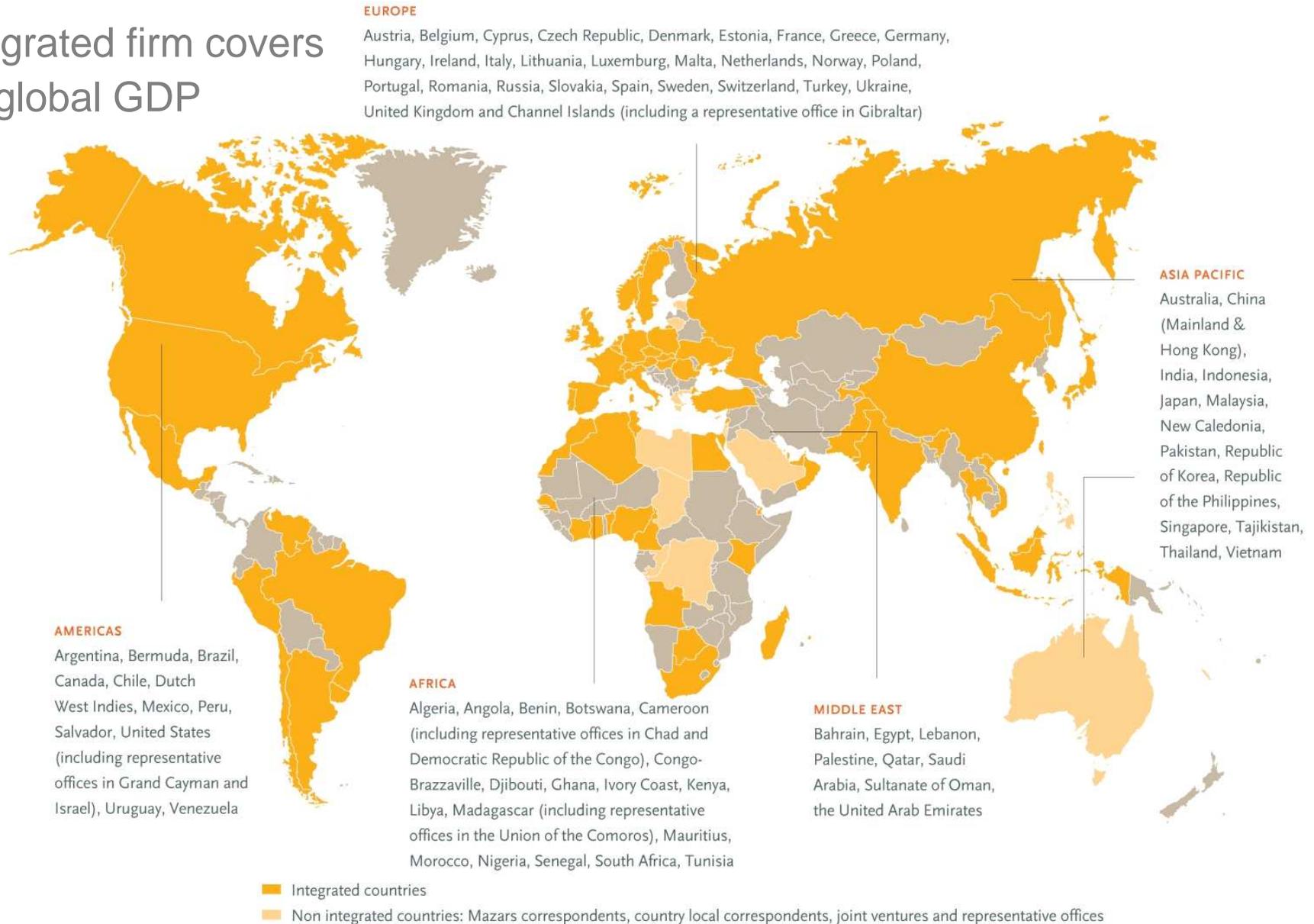
Mazars: a distinct player in the PIE market





Mazars: a distinct player in the PIE market

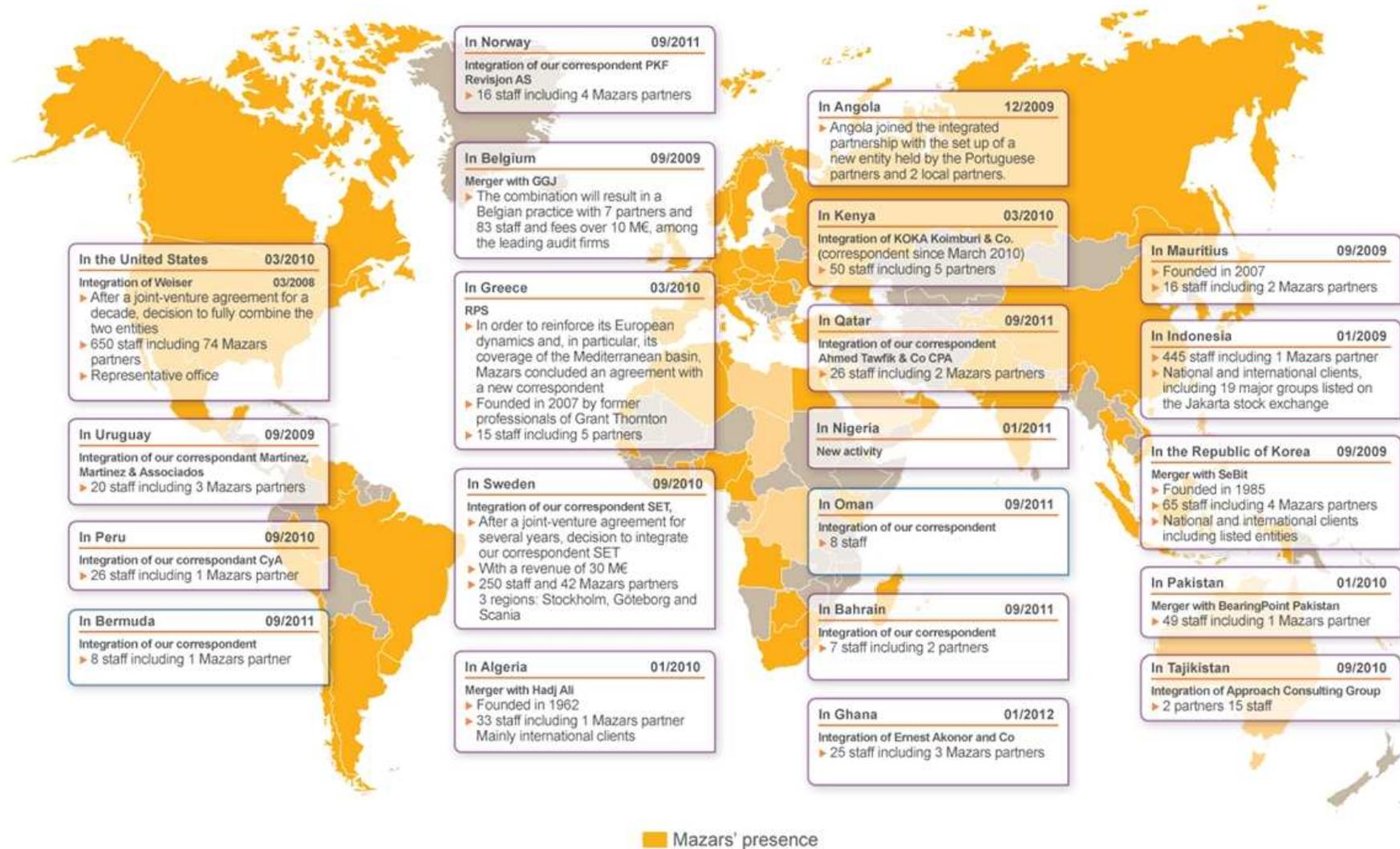
Our integrated firm covers 90% of global GDP





Mazars: a distinct player in the PIE market

Significant investments in capacity and geographic coverage





Mazars: a distinct player in the PIE market

A unique business model

- **A global firm, not merely a network of independent firms**
 - Mazars is an integrated, international partnership which guarantees strategic, operational and financial homogeneity and stability
 - It is the only international player that is legally and operationally integrated worldwide
 - Mazars has been a pioneer in its commitment to transparency by issuing a global annual report, jointly audited, since 2005

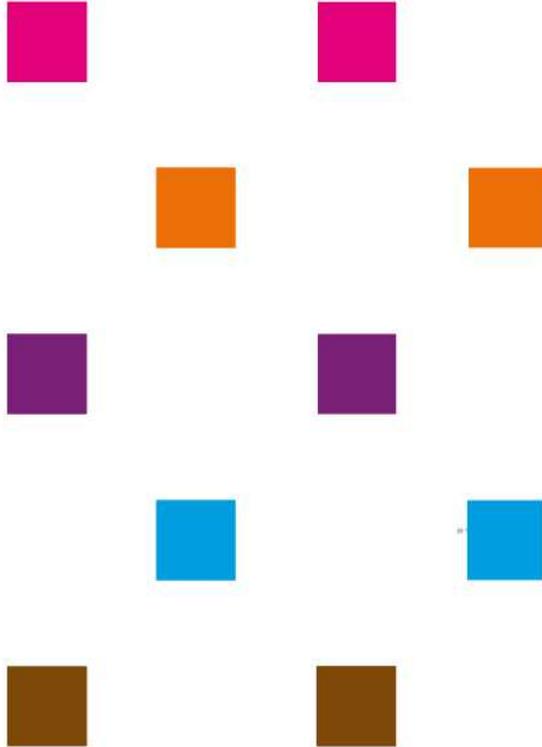
- **A global organisation focused on our target markets and international consistency and efficiency...**
 - Transnational management through Global Business Units (GBUs): PIE, OMB, Tax, Law
 - A technical and commercial process coordinated by GBUs providing consistent quality and technical excellence across the world
 - Global infrastructure in IT, HR and Standards & Risks

- **... and allowing effective international coordination, which is highly relevant in the PIE audit market**
 - Client-centric delivery of services
 - Clear responsibility of a lead partner
 - Transparency of reporting channels
 - Simplified co-ordination of international teams

**Integrated
Partnership**

**Global
Organisation**

**International
Coordination**



Mazars

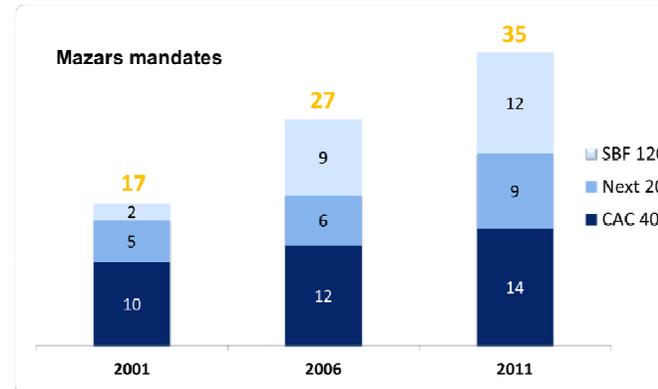
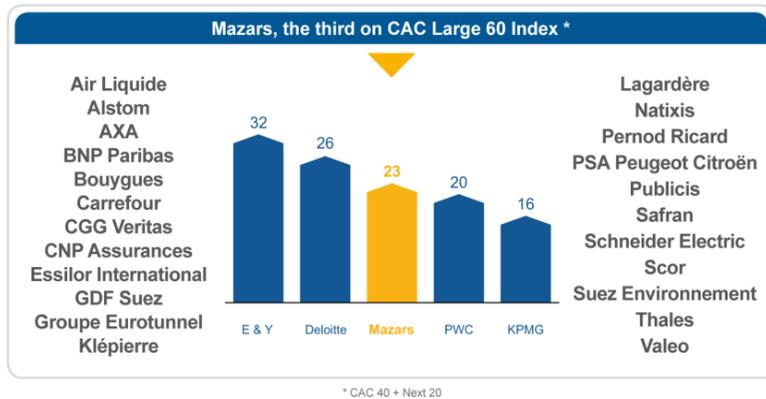
A “challenger” in the large PIE market



Mazars: a “challenger” in the large PIE market

Proven capability and capacity in the PIE market

... built on strong foundations with global clients listed in France



- An exceptional client base outside the Big 4:
 - Two audit clients feature amongst the 100 largest global companies
 - 13 audit clients would feature in the FTSE100 in the UK in terms of market capitalisation
- Unique sector expertise outside the Big 4, notably in the Banking, Insurance and Energy sectors

[REDACTED]



Mazars: a “challenger” in the large PIE market

Proven capability and capacity in the PIE market
... built on strong foundations with global clients listed in France
... supporting our international development.

- Fifth firm in Europe in the PIE audit market
- Over 500 listed audit clients globally on 33 stock exchanges
- The expertise developed with our global PIE clients is a key driver of our international PIE capability
- Our global PIE audit activity is in excess of €300m with €130m with large PIEs





Mazars: a “challenger” in the large PIE market

- Our experience of joint audits for global listed companies
 - A major presence in the large PIE audit market of a top 5 economy

Company	Global Ranking	Market Capitalisation (£bn)
GDF Suez	60	58
BNP Paribas	67	56
AXA	161	30
Schneider Electric	174	30
Air Liquide	221	24
Carrefour	299	19
Christian Dior	357	16
Pernod Ricard	372	16

Source FT 500 2011

- We are joint auditors to a third of all French listed companies present in the FT 500
- The above companies have a market value equivalent to the top quartile of the FTSE100
- Only PwC has more than 8 audit clients in the top quartile of the FTSE100
- Audit fees earned from these clients are broadly equivalent to those earned by E&Y in the UK in this market segment
- Experience across a wide range of sectors

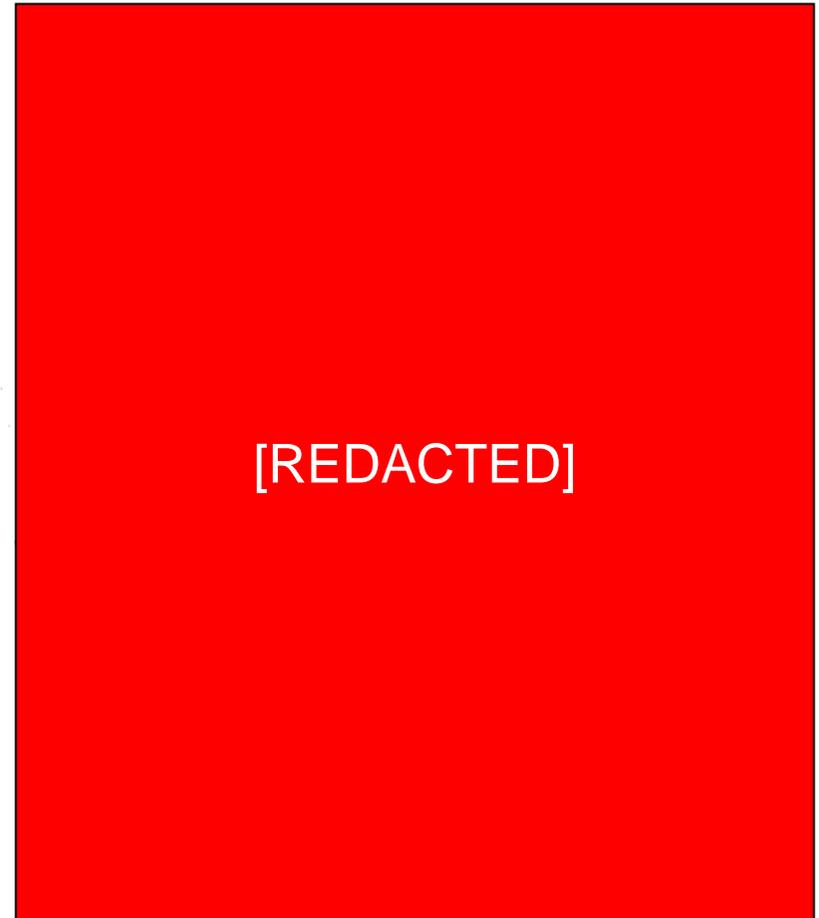


Mazars: a “challenger” in the large PIE market

- Our experience of joint audits for global listed companies



Case studies





Mazars: a “challenger” in the large PIE market

Joint audit and competition:

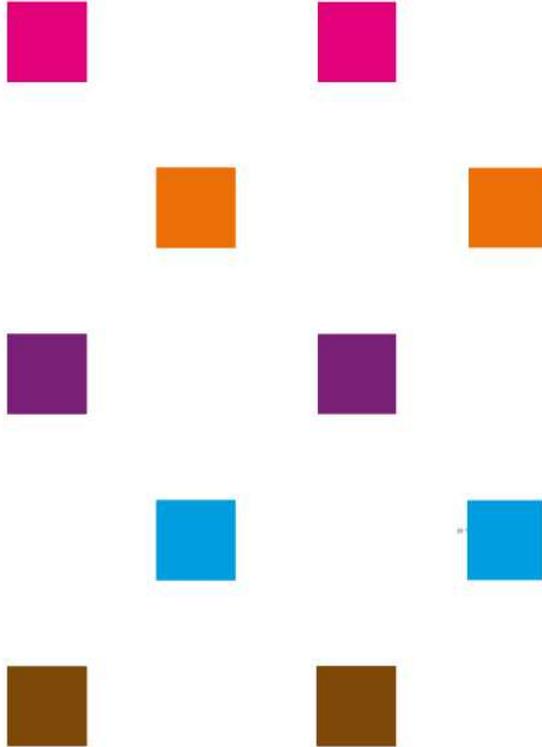
- Joint audit has facilitated the emergence of “challengers” in the PIE audit market
 - Demonstrably more tendering and switching activity than in other audit other markets
 - Bypasses the “never been fired for buying IBM” syndrome
 - Many challengers would have emerged had they not been acquired by the dominant firms
 - Minimal additional time required (between 3 and 5%) with no demonstrable impact on fees
- Joint audit encourages the development of new players who may not immediately have full global coverage or deep enough industry expertise at their disposal
 - Encourages investment in a controlled way
 - Creates an opportunity for new entrants to get onto the ladder of investment
- Delivers improved service through “Coopetition” (co-operation and competition) between joint auditors
 - The ability to have recourse to either joint auditor depending on their technical skills and geographical coverage
 - The ability to replace, during the course of an appointment, a firm for a particular group entity (eg in response to an issue of quality affecting a particular member of the firm’s network, or to the withdrawal of a firm’s licence for a particular country) without harming the consistency of a coordinated approach to the audit of the group
 - The ability to obtain competitive tenders from each joint auditor in the event of increases in audit scope during the course of the group audit appointment (whether as a result of acquisition, new business creation or additional regulation)
- Allows smooth and sequenced rotation of audit firms when deemed appropriate, so as to retain knowledge and understanding of group operations in a way that minimises the disruption caused when a single audit firm is changed
 - Significantly reduces burden of changing auditor
 - Organised rotation of firms has significant benefits compared to rotation of partners due to confirmation bias



Mazars: a “challenger” in the large PIE market

Joint audit and quality:

- leads to real debate of the technical issues involved in regulatory changes, and to additional scope for benchmarking
- enables companies to benefit from the technical expertise of more than one firm
 - This is of particular value in the presence of complex and judgmental reporting frameworks (such as IFRS or US GAAP), or in the case of complex businesses (such as banking, insurance, long-term contracts or businesses applying actuarial techniques), for which any one firm cannot necessarily provide the same auditing quality in all the countries in which the audited group is present
- reinforces both audit quality assurance and the independence of the auditor: the ‘four eyes principles’ create permanent and in-built quality control on a real time basis (or at least, prior to issuance of the joint audit opinion)
- reinforces the auditor’s ability to stand his/her ground in the event of disagreement with the audited entity
 - Can be critical in case of a major crisis, be it due to macro-economic or structural market issues or to issues inherent to the audited entity itself
- provides for reciprocal control of, in particular, the acceptability of non-audit services provided by the auditors and thus results in de facto reinforcement of audit independence
- provides an additional opportunity for audit rotation of audit cycles, businesses or entities thus reducing confirmation bias:
 - The split of work between the joint auditors is often interchanged or otherwise modified during the course of an audit appointment, thus resulting in rotation of audit cycles



Mazars: a “new entrant” in the UK
with a 10 year track record



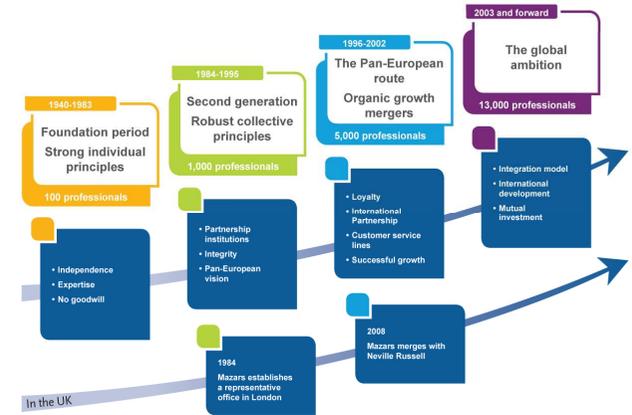
Mazars: a “new entrant” in the UK with a 10 year track record

■ Establishing Mazars in the UK

- Early 80s Mazars opens an office to serve International audit clients
- 1998 Mazars merges with Neville Russell
 - Significant demand from International clients
 - Need to increase capacity and critical mass
 - Strong insurance expertise

■ Mazars in the UK today

- 1200 staff
- £115m turnover, close to three times bigger than in 1998
- 17 offices
- Top 10 audit practice
- A balanced portfolio across OMB and PIE markets
- Large firm of the year award in 2008
- First in audit client satisfaction survey in 2010



AT A GLANCE			
		Service score	No of client grades
1	Mazars	73%	105
2	Horwath	70%	75
3	Grant Thornton	69%	340
4	BDO	68%	180
5	PWC	66%	440
6	Tenon	66%	80
7	Haines Watts	66%	95
8	Baker Tilly	65%	200
9	KPMG	65%	375
10	Deloitte	64%	300
11	PKF	63%	80
12	Ernst & Young	56%	230
Average/Total		66%	2,570



Mazars: a “new entrant” in the UK with a 10 year track record

■ Our PIE strategy in the UK over the last 10 years

- UK PIE audit market is critical for Mazars’ global credibility in the PIE market□
- Phase 1: acquire market share in the large corporate audit market
 - Cross border transfer of capability and credentials
 - Acquisition of major new large PIE clients

[REDACTED]

- But our efforts yielded no concrete results in the UK plc market
 - [REDACTED]
 - Lack of local plc credentials as barrier to further progress
 - Early push for regulatory intervention
 - Audit Quality Forum and Competition and Choice working group
- Phase 2: build credentials in UK plc audit market
 - Reasonable success – now established in top 7 (in terms of market capitalisation of audit clients – although not in number of clients)
 - Complemented by external growth
 - Clear ceiling in terms of size of company accessible through competitive tendering
 - Continued development of our international clients in the UK
 - Continued push for a market open to more competition through Market Participants Group



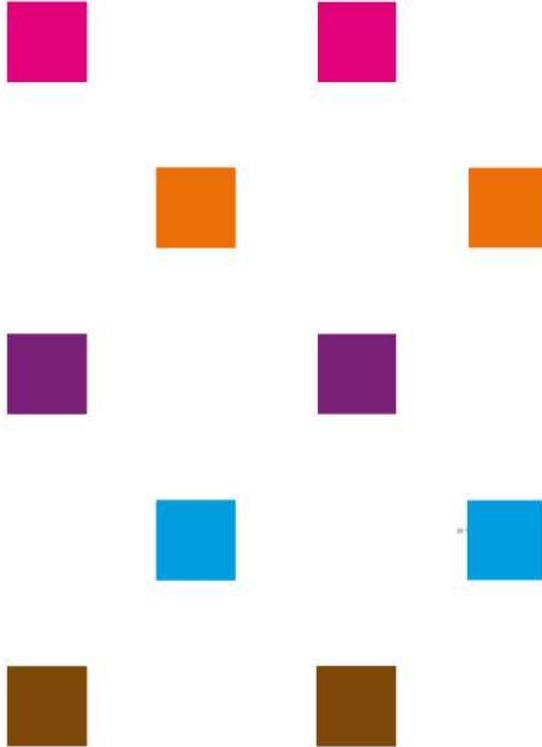
Mazars: a “new entrant” in the UK with a 10 year track record

■ Our PIE strategy over the last 10 years

- Phase 3: 2009 – to date
 - Continue to develop Mazars in the small caps audit market
 - Promote Mazars capability in FTSE350
 - Excellent developments in non audit where we have been able to demonstrate niche specialism or innovation, notably
 - Project Finance
 - Banking
 - Insurance, notably actuarial
 - Continued efforts to promote Mazars’ audit capability with FTSE350 senior executives and NEDs
 - 350 initiative
 - Regular touch points via mail, email and meetings
 - Demonstrable capability and capacity to compete in the FTSE350 market
 - Our top 5 UK audit clients have estimated market values equivalent to companies in the FTSE350
 - The audit fees from our top 5 clients are similar to the bottom 10 FTSE100 and top half of FTSE250
 - But noticeable development in the FTSE350 is unlikely without regulatory intervention

Thre**efifty**

[REDACTED]



Preliminary comments on auditing and the structure of the market

- The role and responsibility of auditors

- Auditing has a number of unusual fundamental characteristics
 - Auditors and the agency model: between a rock and a hard place?
 - A public interest role performed by commercial organisations
 - There is no agreed framework to measure audit quality
 - Quality cannot really be assessed ex-ante and clients (shareholders) cannot generally assess it ex-post
- Where auditors “The dogs that did not bark” as recently put by Lord Lawson?
 - A huge expectations gap exists
 - Doing the right thing or doing things right? Principles versus rules?
 - Audit is no longer delivering what the clients (shareholders) want?

'A market dominated by four firms...is not healthy or in the best interests of investors or wider interests' (ABI)

- The audit profession can respond to client needs through renewed competition
 - “As audit professionals we must never forget that we do not have an inalienable right to undertake statutory audits. Each generation has a duty of stewardship to renew our mandate with shareholders and other stakeholders.”
 - “Oligopolies are the real breeding grounds for laziness”



Preliminary comments on auditing and the structure of the market

- Expectations of key stakeholders in the audit market in terms of competition, choice and audit quality

Competition and choice?

What is quality?

Price and value?



Commodity or valued service?

What is reputation?

Is size issue overstated?



Preliminary comments on auditing and the structure of the market

- FTSE100 needs to be a priority focus
 - 73% of plc value and 78% of FTSE350 fees in the FTSE100
 - 45% of plc value and 40% of FTSE350 fees are in the top 20 companies

LSE market cap £2.2tn

FTSE100 - £1.6tn (FTSE20 - £1tn)

FTSE250 - £0.3tn, Other - £0.3tn

FTSE100

Sum of Audit Fees (pound m)		
Auditor	Total	%
BDO LLP	0.47	0%
Deloitte	100.26	16%
EY	91.05	15%
KPMG	150.44	25%
PWC	270.89	44%
Grand Total	613.11	

FTSE250

Sum of Audit Fees (pound m)		
Auditor	Total	%
BDO	1.01	1%
Deloitte	50.34	29%
EY	31.28	18%
GT	0.98	1%
KPMG	40.46	23%
PKF (UK) LLP	0.08	0%
PWC	50.68	29%
Grand Total	174.83	

Top 20

Sum of Audit Fees (pound m)		
Advisor2	Total	%
Deloitte	16.54	5%
EY	38.96	12%
KPMG	84.30	27%
PWC	177.61	56%
Grand Total	317.41	

Next 30

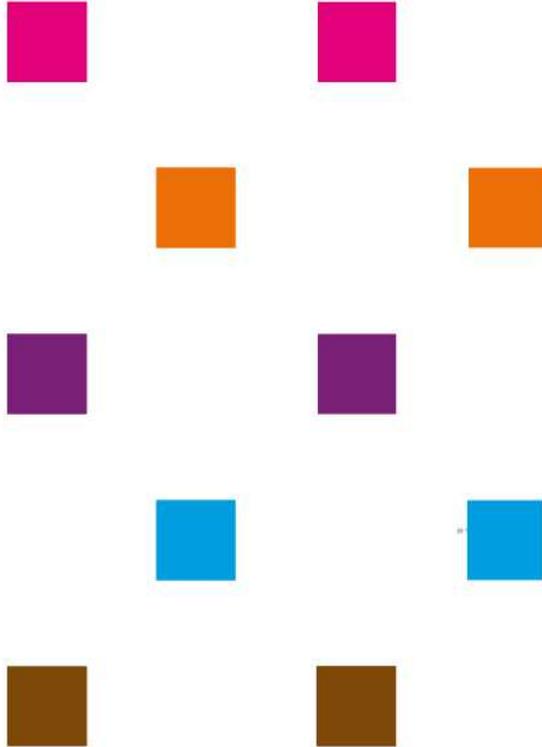
Sum of Audit Fees (pound m)		
Advisor2	Total	%
Deloitte	66.74	35%
EY	23.25	12%
KPMG	49.73	26%
PWC	48.95	26%
Grand Total	188.67	

Other 50

Sum of Audit Fees (pound m)		
Advisor2	Total	%
BDO LLP	0.47	0%
Deloitte	16.98	16%
EY	28.84	27%
KPMG	16.41	15%
PWC	44.33	41%
Grand Total	107.03	

FTSE100

Sum of Audit Fees (pound m)		
Supersector	Auditor	Total
Banks	Deloitte	33.20
	KPMG	55.00
	PWC	68.80
Banks Total		157.00
Basic Resources	BDO LLP	0.47
	Deloitte	9.26
	EY	11.79
	KPMG	13.78
	PWC	19.61
Basic Resources Total		54.91
Industrial Goods & Services	Deloitte	1.70
	EY	4.20
	KPMG	22.63
	PWC	16.27
Industrial Goods & Services Total		44.80
Insurance	Deloitte	5.70
	EY	27.90
	KPMG	24.80
	PWC	9.50
Insurance Total		67.90
Oil & Gas	Deloitte	4.21
	EY	33.68
	PWC	39.60
Oil & Gas Total		77.49



Our views on the key market features restricting competition



Our views on the key market features restricting competition

- Our experience in relation to:
 - Tendering
 - Switching
 - Bundling of services

- As set out in the Issues Statement, 2.3% annual switching rate for FTSE100, i.e. average audit tenure of 43.5 years
- “More than 70% of FTSE 100 companies had not held competitive tender in preceding 15 years” (Oxera)
- Infrequent tendering means lack of opportunities for and incentive to new players to enter market
- This compares to the French market where:
 - 50% of CAC40 companies have put their audit out to tender in last 6 years
 - Between 2005 and 2010, switching in CAC40 has been 18%
 - 101 firms involved in the audit of the top 250 listed companies
- In relation to tenders, “Practice makes perfect”
 - Need to ensure tendering costs not overstated
 - Majority of costs are internal costs for both firms and companies
 - Most clients who have been through a tender have found value in the process
- Tenders allow new entrants to develop relationship with Management and Audit Committee
- A significant and impossible challenge? Getting the price right
- Experience that non-audit service offering does influence auditor selection



Our views on the key market features restricting competition

- Our experience in relation to:
 - The impact of standardisation
 - Professional standards established – Principles based
 - Interpretation by the firms internationally
 - strong influence from US firms
 - legal input
 - translated into rules that have to be complied with
 - for risk management purposes – benefits consistency and perceived legal protection
 - for efficiency purposes
 - automation with audit software
 - cost reductions (gearing, offshoring, etc)
 - Standards become rules become competitive advantage for dominant firms – the example of ISA600
 - But what about the value of audit:
 - Process v professional scepticism
 - Confirmation or investigation?
 - Changing role of audit partner
 - The influence of the regulator
 - The challenge of differentiation: commodity product or valued service?



Our views on the key market features restricting competition

- Our experience in relation to:
 - Institutional bias
 - Dominance of the dominant firms in key regulatory, professional and industry roles
 - The influence of “influencers”

 - Bias not necessarily intentional, may arise from networks, alumni links, beliefs from training. Likely to particularly be an issue in UK where chartered accountancy seen as a key business qualification and training takes place in firms
 - Boards and senior teams- many have chartered accountants on boards as CFOs/FDs, audit committee members, chairs, CEOs with links to Big 4
 - Regulators, Professional bodies, Industry groups, Lobbying groups- volunteers, staff, secondments. Involvement allows influence and access to information
 - Influencers: investment banks, brokers, lawyers etc: reciprocity, beliefs, protection
 - Size, share of voice, and when unsupported assertions become “the truth”

 - Relevant and recent examples



Our views on the key market features restricting competition

■ Our experience in relation to:

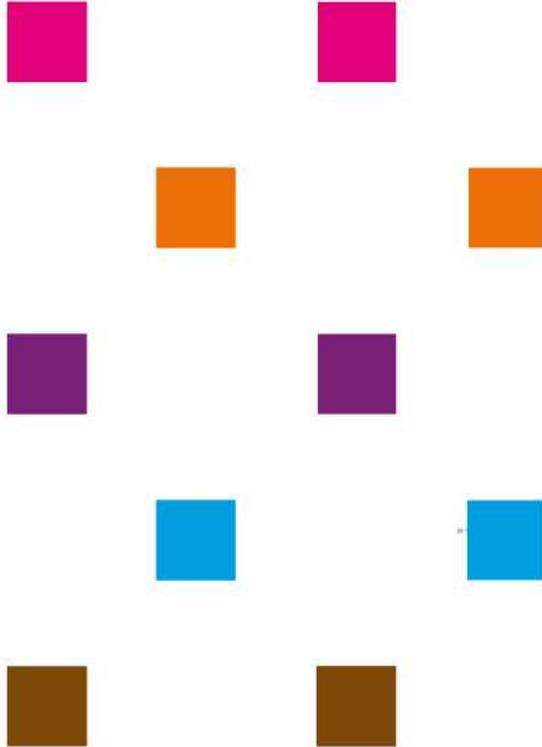
- Profitability and competition
- Significant gaps in profitability
 - Between big 4 and the other firms
 - Strong correlation between size, market share and profitability per partner, including among the big 4
 - Increase in big 4 profitability over the last 10 years with UK being one of the most profitable location for big 4 business
 - Big 4 tend to do “step up” immediately after a crisis (Enron and SOX, recent crisis and Insolvencies and Consulting)
- Profitability model:
 - Pricing
 - Gearing
 - Resources utilisation
- Acquisition of successful new entrants
 - Non-big 4 players have been weakened by firms leaving in key jurisdictions to join big 4, eg Brazil and Denmark. Also France.
- Difficult for existing players to attract leading teams from big 4: audits will not follow; remuneration differential – risk/reward ratio is not favourable

Firm	UK Partner average	Year info obtained
Deloitte	£758k	2011
Ernst & Young	£663k	2011
KPMG	£671k	2009
PWC	£763k	2011



Our views on the key market features restricting competition

- Our experience in relation to:
 - International networks and new entrants
 - Integrated firms, networks, alliances and independent firms
 - Networks and competition
 - A very long time since any significant new player in the FTSE350
 - Concentration in market has increased substantially as big 8 have merged among themselves and absorbed mid-tier firms
 - Demise of Andersen further increased concentration
 - Country exclusivity in key networks make it very difficult for a firm in one country to get international reach for large clients
 - Development of new players in China – from domestic to global
 - Consolidator model with external capital has not been successful- goodwill challenge
 - Networks and transparency



Adverse effects on competition



Adverse effects on competition

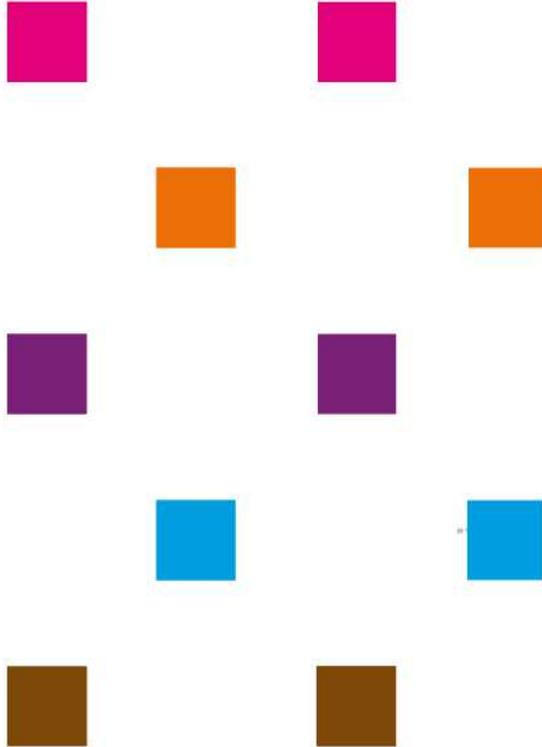
■ Current situation

- No real opportunities for firms to penetrate the FTSE350 audit market
 - Few tenders and rarely open to a wide range of firms
 - Too many barriers for companies to overcome to appoint a non big 4 firm
 - Worse in certain sectors
- Suboptimal audit quality and levels of innovation
 - potential for greater innovation at firm and industry level
 - tendency for auditing to be seen increasingly as a commodity
 - more competition would be expected to enhance quality of service and wider offering of alternative firm structures
- Ineffective pricing for audit services
 - partner remuneration level differentials between big 4 and other firms suggest opportunities for fee reductions
 - general understanding of tendency for tenders, and threat of tenders, to lead to lower prices also supports this viewpoint
- Limited competition in non-audit markets
 - reduced competition and ineffective pricing for non audit services which are captive due to audit relationship
 - suboptimal allocation of resources within firms towards non audit services



Adverse effects on competition

- Potential situation in the future if nothing changes
 - And then there were three
 - Not a theoretical risk. It happened with Andersen in the last decade and the cause can originate anywhere in the world
 - May come from regulatory and/or reputation risk issues
 - At that stage regulatory capture would be virtually guaranteed and competition problems severely aggravated
 - Relying on living wills- untried and risky
 - May be little to salvage if reputation shredded
 - Almost certainly more difficult than for Andersen as their market share was relatively modest
 - Prevention better than cure. Additional players the answer.
 - Potential for long term damage to the audit profession



Our initial thoughts on potential remedies



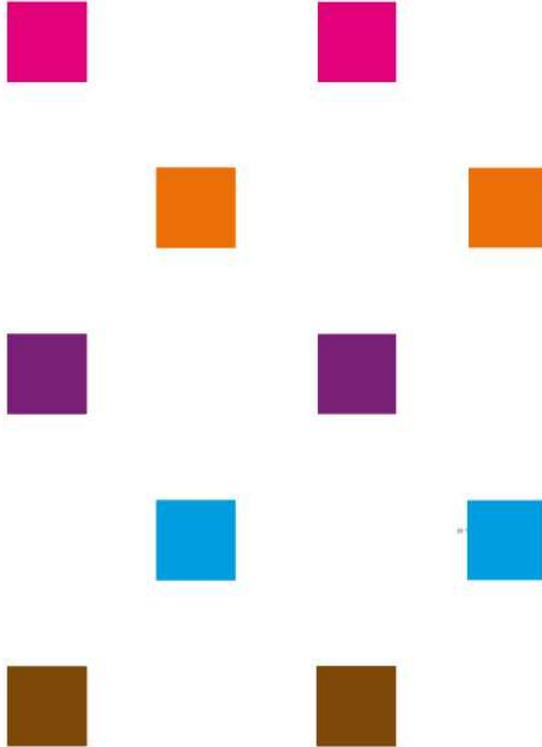
Our initial thoughts on potential remedies

We believe that a well balanced package of reforms could open between 10 and 15% of the FTSE350 audit market to the non dominant firms within 3 years:

- Resulting in improvements in service levels
- Creating long term change in public perception
- Likely overall improvement in audit quality across the firms as more resources are directed towards auditing
- With cost benefits to companies

This package of reforms to include:

- Regular and fair tendering
- Institutional prejudice: need to promote diversity
- Joint audit at the top end of the market
- Multi-year audit mandates
- Stricter approach to conflicts of interest
- Canvassing, lobbying, influencing – regulate and disclose

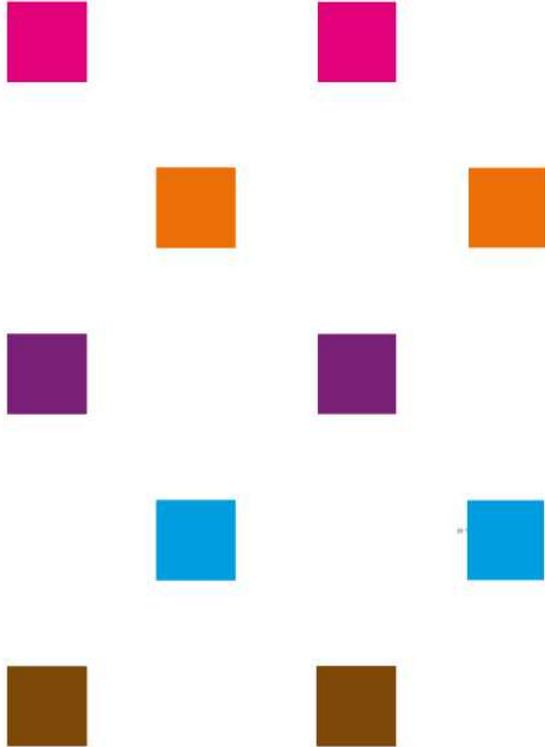


Key success factors



Key success factors

- A profession that places clients' needs at the forefront
- Shareholders involvement
- Better regulation
- Proportionate liability
- Addressing the pervasive influence of the dominant firms



Conclusion



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