AUDIT MARKET INVESTIGATION

Summary of hearing with BDO held on Thursday 4 October 2012

Introduction

1. BDO circulated a slide presentation.[1]

2. BDO had experience of barriers to entry and expansion in the market for audit services. Reputation was a big barrier and BDO was keen to make investments in the market for audit services and in particular to invest to grow its reputation. BDO and Grant Thornton had commissioned a report from Oxera on investor views. The report highlighted a disconnect between the interests of investors and audit committee chairs (ACCs) when buying audit services. In terms of price, there was a Big 4 premium in the market. At the international level, BDO had seen predatory Big 4 behaviour, for example, in Brazil. [✂]. These were examples of Big 4 predatory behaviour to further strengthen their own networks.

3. BDO believed that there was already sufficient evidence of adverse effects on customers in the market for audit services but that there were some loose ends and some gaps. There was also a myth that the Big 4 only low-balled in the summer: they low-balled throughout the year. Given that the CC had a lot of information about pricing in the FTSE 350 and Top Track audit markets, BDO considered it surprising that the CC was not investigating profitability. The Big 4 also spent heavily on marketing costs and had impressive partner earning targets.

4. The market for audit services for the FTSE 350 featured characteristics that were conducive for tacit collusion between the Big 4, i.e. transparent pricing and a stable market share of well over 95 per cent. There were firms in the market that told their staff to discourage customers from switching. The Big 4 had commissioned Copenhagen Economics to carry out some analysis of the market. BDO had seen how the Big 4 could influence regulators and government. All of these factors contributed to barriers to entry.

5. There was also a systemic risk of the Big 4 being reduced to the Big 3 which would be a competition issue if it occurred. It might perhaps be an opportunity for BDO but it might well not be beneficial for the market as a whole. The market needed change and regulators and competition authorities in the EU and G20 were looking to the CC to lead on challenging and changing the market.

6. BDO believed that remedies did not need to be radical and could amount to a number of small changes and increased transparency, which would have a major effect on the market. In terms of adverse effects, BDO considered that the market for audit services to the FTSE 350 was not competitive. Forty per cent of FTSE 350 companies had either never tendered or had not put their audits out for tender over the past 10 years. Average annual switching was between 1.8 and 2.8 per cent depending on which segment of the FTSE 350 was being assessed, which implied an average engagement length of more than 50 years.

[1] http://www.competition-commission.org.uk/assets/competitioncommission/docs/2011/statutory-audit-services/mph_bdo_presentation.pdf

7. Fees always reduced after switching and 90 per cent of people who switched felt they received better quality. The market share of the Big 4 had moved from 92.5 per cent in 2001 to the current figure of 99.6 per cent. These factors all added up to an uncompetitive market.

8. In the investor survey carried out by Oxera, nearly 80 per cent of investors did not think there was sufficient choice. A further 15 per cent thought there was sufficient choice but it was not used. Forty per cent of the companies in the FTSE 350 considered there was insufficient choice in audit provider.

9. The need for increased auditor independence had been driven by the market and also European legislation and international ethical standards. Independence would create fewer non-audit services for auditors and more conflicts of interest which would mean less choice. Investors did not think that auditors were very independent.

10. BDO considered that the quality of audit services provided to the FTSE 350 was not optimal, as demonstrated by the number of well-publicised audit failures. There was also a myth that the Big 4 provided better quality audits. The Audit Inspection Unit (AIU) and PCAOB did not report this. One hundred per cent of investors thought that the audit quality was the same between the Big 4 and others or that the quality was the same, but perceived differently.

11. BDO considered that there had not been much innovation in the market for audit services. Innovation was not the same as ways to reduce the cost of an audit or using technology to carry out audits as these did not innovate the actual product. BDO felt there was an expectation gap. PwC's survey showed that most investors wanted more work done by auditors around going concern, reporting to the investors, more sharing of issues that were discussed with audit committees, more narrative reporting and more about the reliability of earnings releases.

12. Deep discounting was a year round activity: the Big 4 low-balled to get work from BDO. For example, BDO was providing audit services to [✂] until [✂] said they would beat BDO on price no matter what that price might have been. BDO was forced to renegotiate the price down so low that it was forced to withdraw. This type of behaviour happened a lot with the Big 4 firms.

13. BDO explained that the CC's statistics (from the public dataset) showed what happened when an audit moved from one Big 4 firm to another: an immediate 19 per cent dip in fees. However, over the next 2 years, that fee then gradually increased. If a client went from a mid-tier firm to a Big 4 firm, prices immediately increased and kept going up. A client that moved from the Big 4 to the mid-tier was met with an immediate and sustained drop in price. There was evidence of a Big 4 premium in a context where there was no demonstrable difference in quality, as could be seen in the LSE report, the Cardiff Business School report and the 2006 Oxera report.

14. BDO stated that most of the buyers of audit services in the FTSE 350 market were alumni of the Big 4 firms. There was neither significant tendering nor switching in the market. The CC's evidence showed switching costs were low. There was also an 'IBM effect' – acknowledged in the CC's case studies - which made FTSE 350 companies reluctant to shift from the Big 4 audit providers. The CC's research demonstrated that bank covenants restricting audits to the Big 4 were used very extensively and there was substantial informal exclusion even in the market below the FTSE 350. BDO considered that Audit Committees buying on behalf of shareholders produced significant information asymmetries.

Merger talks with PKF

15. BDO was in merger talks with PKF. The transaction was substantively agreed including heads of terms and commercial aspects. The merger with PKF would take BDO from achieving around £280 million of UK revenues to £380 million of UK revenues. It would increase BDO's market share, particularly in the private company marketplace and in the AIM market, but not particularly at the top end of the FTSE 350 market. BDO's strategic ambition was to lead domestically and internationally in the mid-market. The merger with PKF allowed BDO to get very close to leading the mid-market in the UK.

16. BDO did not consider the merger would affect the structural issues of the market because it was bringing together two mid-market firms together with mid-market portfolios: this did not counteract reputational issues at the top end of the market as BDO would remain a lot smaller than the smallest of the Big 4. BDO could not significantly increase its share of the FTSE 350 market on its own, although it would try to exploit any future changes in the market.

Rivalry

17. BDO believed that it provided a cheaper and better service than the Big 4 auditors. BDO was rated number one by a market survey, Lighthouse, in terms of giving good client service to the mid-market. Over the last three to four years BDO had invested heavily in a genuine ethos that 'client service must come first' and took this very seriously.

18. BDO's partners were paid less than the partners at a Big 4 auditor while BDO's economic model required its partners to spend more time with their clients. There was a perception that BDO's clients received more time with its senior people than they did at the Big 4. The Big 4 had a leveraged model which meant that clients would see the partner at the beginning and the end of the audit but in between, they were more likely to be dealing with the audit team. Some companies understood and appreciated the increased partner time and had confidence in buying from BDO.

19. The CC estimated BDO's partners spent about [✂] hours a year on marketing activity. BDO confirmed that a BDO corporate finance or business recovery partner would typically spend much more time on marketing than an audit or tax partner. Advisory partners effectively needed to win their next year's work as advisory work was a less recurring business. Audit and tax compliance partners' work was more predictable. BDO considered the [✂] hours a year spent by audit partners on marketing would tend to understate the real level of activity as it did not necessarily record the time partners might spend meeting a client for dinner or carrying out a marketing activity at the weekend.

20. The majority of investments BDO had made went to the efficiency of the delivery of the audit product rather than to innovation around the nature of the audit product itself. This was also true across the entire market. BDO considered that the regulatory framework limited BDO from being more innovative around the actual audit product itself.

21. BDO's investments in efficiency of the audit product had [✂] because there had been increased regulation that companies have to follow. Companies had been largely unwilling to pay for this increased regulation, which was a problem for the auditors. There was a better understanding of the regulatory requirements in the FTSE 350 market, whereas smaller AIM businesses would expect the auditor to absorb the costs.

22. The larger and more complex the client, the more they benefitted from BDO's investments. The overall effect on profitability as a result of BDO's innovation had been largely [✂]. BDO was investing to improve its competitive advantage. Its investment in technical tools of auditing had not [✂] the economics of its business in any way.

23. BDO's margin in audit had been fairly steady over the last three or four years. The challenge for BDO was [✂]. BDO would ideally like to achieve a margin of [✂] per cent but that might be an optimistic figure. BDO was currently achieving a margin in [✂]. BDO would expect to achieve a lower margin on audit as it was a lower risk (i.e. recurring) activity.

24. The fundamental in BDO's audit business was to ensure that quality was maintained at the absolutely highest standard. If anything were to damage BDO's reputation on quality, it would fundamentally undermine BDO's business. Therefore, the margin did not necessarily come first and was not the only driver.

25. BDO could always do [✂] marketing to FTSE companies. BDO considered that there was nothing that BDO could not do that the Big 4 could in the technical auditing sense. BDO believed however that the audit profession as a whole was suffering due to the lack of real innovation.

26. It was quite common for AIM listed companies to progress through to full listing but this had not happened for one of BDO's clients over the past couple of years. In the situation where an AIM listed company becomes fully listed and did not continue with BDO's auditing services, it would be most likely because of informal exclusion by intermediaries including investment banks, old-style merchant banks and brokers. As set out in BDO's evidence on listed debt, [✂]. 'Big 4 clauses' were also a barrier, for example.

27. The people who advised the clients at investment banks and certain stockbrokers were quite key intermediaries. The motivation that these advisers would have to advise their clients to use a Big 4 auditor was safety (the IBM factor).

28. [✂] but the Oxera survey showed that investors were happy with at least six firms auditing FTSE listed companies. Private equity houses also sometimes liked dealing with the same auditor across their portfolio which led them to prefer a Big 4 auditor. If there was a preferred supplier agreement, for example the agreement [✂] had with [✂] (i.e. a private equity company which was a shareholder in many companies) it was questionable as to who was the client. It would be of concern to BDO if a single shareholder was seen to be the client. BDO considered that the auditor's responsibility in the broadest sense was to shareholders as a body otherwise there were difficulties with independence and conflicts of interest.

29. Private equity houses stating a strong preference for a Big 4 auditor was a common problem for BDO. For example, BDO won a job a couple of weeks ago for a start-up business financed by a large private equity company, [✂]. BDO had a relationship with the client's finance director who had tried to give BDO the audit. The large private equity company used one of the Big 4 and it was an uphill struggle to win the work.

30. There were barriers to BDO continuing to provide audit services to companies that grew to full listed status. These barriers came from a number of different directions and increased as the number of intermediaries grew. BDO had contacted investment banks with a view to try to change their perception. It was however a process that BDO had not taken as far as it should have. [✂]. BDO had also had a number of

those types of meetings with private equity firms. People who would be listing advisers (i.e. brokers) were important and BDO had spoken to them where they could.

Non audit services and potential clients

31. BDO did quite a lot of work with FTSE 350 clients outside of audit. About [✂] per cent of the FTSE 350 were, or were recently, clients of BDO's in a non-audit capacity. BDO's share of that market was, however, small. The UK market for accounting and advisory services was a £10 billion market and BDO had a [✂] per cent market share. The larger businesses were generally spending more than the smaller businesses both in advisory and audit services and BDO's share in those markets was proportionally very small. Better relationships with FTSE 350 companies improved BDO's chance to improve its track record and increased chances for winning their audits. However, despite following this strategy for the last five to ten years, BDO had not managed to penetrate significantly the market for FTSE 350 audits. Whereas BDO acted for around [✂] per cent of FTSE 350 for non audit services, it only audited around 2 per cent.

32. BDO had lists of FTSE 350 companies that it thought it should target. It had analysed BDO's contacts in these companies and who the influencers were. It was not however BDO's core market and of more relevance to most of BDO's people was the mid-market in which they operated. Although BDO had aspirations to enter the FTSE 350 market, not all of BDO's business was focused on penetrating the FTSE 350. Until BDO thought the market was actually going to be reasonably open to competition there would inevitably be some limitation in place on investment in that, as opposed to other, markets.

33. BDO had made very limited progress in the internal audit market for FTSE 350 companies. FTSE 350 companies saw it as a safer option to buy Big 4 audit services. The financial services sector, for example, spent more on professional services than any other market. In the FTSE 350 market, the Big 4 audited the banks and did the banks' internal audit work and the consulting work. The Big 4 helped HM Treasury resolve problems in financial markets in 2008/2009. The Big 4 then did the investigations for the Financial Services Authority (FSA) in relation to how the big banks were working and the Big 4 were currently doing large remediation projects for the big banks about how things work. The Big 4 had penetrated the financial services market so deeply and there was such confidence in the Big 4 brands that it was very hard for BDO to break into and enter the market.

34. BDO had not fared particularly well in the public sector audit market and did not have a big public sector practice. It was an area that BDO had looked to invest more in recently. The central government departmental spend from 2006 to 2009 showed that government spent £2.7 million on BDO's services out of a total spend of £1 billion, of which the Big 4 were paid £562 million. BDO had made good progress in certain specialist areas, including health care and local government, but this only amounted to £[✂] in each area of revenue per year. BDO felt that progress had not been meaningful in terms of size of the marketplace and the Big 4 had penetrated the public sector in the same way as they had the FTSE 350.

35. BDO considered that Grant Thornton had pushed into the public sector very well. Grant Thornton had some relevant experience in the public sector market that left it well placed to pick up four lots in the Audit Commission bid. BDO was on the consultancy list and an approved public sector supplier. It had been given some fantastic opportunities such as BDO's investigation into MG Rover which was a significant high-profile public interest case.

36. The non audit work that BDO did for FTSE 350 companies was across the board. For banks, BDO did an element of restructuring work for the companies to which they had lent money. BDO also did corporate finance work, specific tax projects and a number of other types of work. It was difficult to cross leverage work from non-audit work to audit as the audience and the buyer were not the same, given that the audit was a public appointment and in the gift of the audit committee (although there was also some dispute over who controlled the audit - the audit committee or the CFO).

37. BDO questioned the accuracy of the CC's statistic that 30 per cent of FTSE 350 audit tenders invited mid-tier firms to tender. BDO had only been invited to tender for audit services by [✂] FTSE companies in the last five years. If companies were going out to tender on a piece of work, they were generally looking at the Big 4 and if they wanted a mid-tier firm, they would go to either BDO or Grant Thornton, but not both.

38. Tenders took auditors some time and expense and BDO did its pre-qualification assessment quite rigorously. If it did not consider it had a realistic chance of winning the audit, it would not bid. The CC considered that if it were correct that the FTSE 350 had received audit tenders from mid-tier firms in 30 per cent of cases, it was likely that this figure would represent real tenders rather than being invited to look good for the tender panel.

39. BDO had also received feedback from its clients that it had only won audit appointments because it had had a longer-standing relationship. This relationship might have developed through its advisory work. If BDO did not have a relationship with a FTSE 350 company from whom it received a tender, the chances were that it was only being invited to make up the numbers. In such a case, BDO was unlikely to submit a tender.

40. The main point on which BDO differentiated its audit offering from other companies was service. BDO would commit more partner time. BDO would not necessarily lose partners who were winning FTSE 350 clients to the Big 4 (who paid more) because people had made career choices to join BDO. Money was not everything and people made career choices not to go to the Big 4. Whilst BDO's partners did essentially the same work as Big 4 partners, requiring the same skills and attributes, and subject to similar risks, it did not regard average profit shares in excess of £700k to be either justifiable or sustainable.

41. When BDO did not win an audit, such as [✂] it tendered for FTSE 350 companies for audit work over recent years, it sought feedback in order to understand where the market felt BDO needed to be doing better and trying harder. The reasons for not winning could be categorised into three areas - complexity, sector expertise and international capability - although it was still told anecdotally that it was not being selected because it was not one of the Big 4.

42. BDO considered that the only real long-term way of breaking into the market was to develop deeper relationships with decision-makers which very largely meant ACCs (who were usually Big 4 alumni), as well as non-executive directors. BDO was taking steps to get to know these people, but it would take some time to influence them sufficiently to make decisions that went against the general pattern of the market.

43. BDO had also witnessed others trying to do the same relationship-building process with one of its clients when it was the incumbent auditor. It would be very unusual for a company to appoint an auditor with whom it did not have an established relationship. The relationship could be built up in non-audit service areas or through other fora, but it was rare that it was a completely cold switch. On occasion, BDO

had been threatened with a tender as the incumbent auditor as a part of the annual renegotiation process.

44. Companies in the FTSE 350 market were more likely to receive unsolicited tenders from competitors. Competing auditors usually committed to a figure in terms of cost even before having an opportunity for a detailed assessment of a client's audit needs. BDO fought off that type of competition by keeping close to the company i.e. the CFO, the CEO and most of all, the ACC, and by going out of its way to provide a decent service.

45. BDO could also be aggressive in winning audits but it had not sent unsolicited bids as it considered this to be bad and/or risky behaviour. BDO had target lists, in terms of getting to know people and identifying the opportunities, and was very proactive on that front. BDO was also aggressive on pricing where it needed to be. BDO had experienced situations where the client had carried out a preliminary testing of the market - like a pre-tender – although it had had very few approaches where it thought the client was not carrying out a serious process.

46. BDO had experienced one situation where a company asked it what it thought pricing would look like in a tendered situation. BDO looked to publicly available information to determine a price. The pricing decision was rarely driven by a detailed cost analysis but what the competitor was likely to be charging, or the right market price. BDO agreed with the CC that the inability to have much detailed insight into the issues was not really an inhibitor because BDO would be indicating how low it was prepared to go or what it was prepared to pay to win the business.

Barriers

Reputation

47. BDO believes that the Big 4 have a rather "inelastic" reputation, in that they could experience many scandals and still profess to "own audit quality". In contrast, people still referred to Polly Peck, formerly a BDO client, two generations ago.

48. BDO did not necessarily consider the FTSE 350 market as an entirely separate market. Companies did not change in any particular way when they entered the FTSE 350. Change tended to come in the FTSE 100 when companies became large global businesses and quite distinct. There was not a huge difference between a FTSE 250 company and a number of AIM companies.

49. A FTSE 350 company would have different characteristics to (for example) a £40 million sales company but was no different to a large AIM company, particularly because the regulatory requirements were much the same. The only distinguishing feature was the buyer behaviour and that was what had fundamentally held BDO back. It was necessary for BDO to enter the FTSE 350 market because it needed the reputational benefits. The prestige that came with auditing FTSE 350 companies was key in selling BDO to mid-tier companies: there was a type of halo effect.

50. The total volume of profit would be proportionately greater when auditing a FTSE 350 company because in volume terms, the fees from a larger company would be greater as the volume of the work was greater. The companies at the lower reaches of the FTSE 350 provided the same fees as the top end of BDO's existing clients and that was important. The higher fees and the halo effect were critical to BDO's business strategy.

51. BDO's portfolio had changed significantly over the past five years and it had increasingly taken on larger, more complex work with larger domestic and international opportunities. BDO's ambition was to dominate in a particular part of the market and stretch up where it could. However, there was an overlap between the top end of the mid-market and the lower end of the FTSE 350 market which was where BDO hoped to expand its business. Opportunities were increasingly available internationally. If BDO was unable to stretch up and penetrate the larger ends of the marketplace there was no question that the lack of credentials in that market would compromise BDO's international strategy.

52. There was a strategic challenge in that BDO needed to keep pace with the growth of some of BDO's firms overseas and BDO's network needed to grow together. There were not the same restrictions in those overseas markets. In many respects, the UK was seen as a world leader in terms of a service-led economy, and in financial services and accounting in particular. BDO in the UK and the relevant Big 4 entities had a very good reputation in their respective networks as being the forerunners. The UK as a capital market was recognised as being one of the global centres and therefore it was very important for BDO to have a secure position in that marketplace as a demonstration to the rest of the network. BDO in the UK was at the forefront of its network in terms of penetrating the larger marketplace in some of the larger companies that it acted for but not necessarily in the FTSE 350 market, other than for advisory services.

53. Over the past few years, BDO had invested significant time and effort internationally to create a consistent global brand, modernising its network structure and agreeing a consistent global strategy. BDO had updated its methodologies and processes which included the roll-out of a global technology based audit methodology and investing in global sector expertise, including client service offerings, so that it could be as seamless as possible across international borders. BDO also invested in international secondments and mergers and acquisition opportunities to develop the network. BDO's international investment was inextricably linked to what it was doing in the UK.

54. BDO saw itself as being the leading alternative to the Big 4 in the marketplace. BDO felt that it had the international platform and (if it kept growing in the UK) the UK platform to become the dominant player outside of the Big 4, and to be the firm that broke into the FTSE 350 market.

55. The brand recognition of the Big 4 was around 80 per cent whereas, two to three years ago, BDO's brand recognition was lower than that, but over the past few years it had grown considerably. BDO's brand recognition was higher in London and the Southeast but less so in the regions. There would probably be a greater recognition of BDO in the mid-market but less recognition in the FTSE 350 market. The lack of recognition in the FTSE 350 market was either because BDO was not marketing itself properly or other people were doing an even better job at pushing BDO down. BDO could do more to target the Chief Financial Officers and Chief Executive Officers and ACCs.

56. BDO held activities such as running a non-executive network at which it regularly spoke. BDO's partners also man-marked non executives. This activity was designed to target a particular tier of non executives to extend BDO's influence and to understand their priorities, as well as increase BDO's chances of being asked to participate in an activity with them.

Risk of audit failure and insurance

57. There was ample evidence of audit failure of the Big 4 over the past couple of years including [✂]. [✂]. BDO had around £[✂] million cover overall and an excess of £[✂] million.

58. Audit was a profitable low risk business, but one where the potential of a catastrophic event remained. Changes to the legal structure of the business, including limited liability, protected the partners but not the partnership itself. Therefore, if there were a catastrophic claim, it could to some extent be ring fenced. However reputation had completely pulled firms down, which was witnessed with Andersen.

Theory of Harm 2

Shareholders

59. The aim of the audit was broadly to provide assurance to shareholders, but there were other important stakeholders. The auditor reported to shareholders as a body in a very binary way and it had almost invariably no relationship with the shareholders individually. It would be possible to have more dialogue with shareholders. For example, in Australia, it was a legal requirement that auditors were questioned during annual general meetings. Shareholders in the UK were only just becoming more aware of the importance of audit reporting and the views of shareholders had radicalised over the past two years as more investigative work had determined what was included in the audit. There was now a body called the Global Auditor Investor Dialogue where auditors and investors talked to each other about innovation. There was no such mechanism however in the UK at the local company level.

60. Conversing with shareholders outside an AGM about details of the audit might be difficult if it contained price sensitive information. Dialogues with shareholders would therefore need to be done in a way that was controlled and open to all shareholders to avoid the issue of preference arising. BDO considered that such a dialogue would be a positive development, and supported shareholders having more influence over the audit appointment.

61. BDO could not enter into more dialogue with shareholders at the moment particularly where companies did not want their inner workings to be made known. [✂].

ACCs

62. BDO had not witnessed audit committees speaking on behalf of shareholders and ACCs also tended to be more risk averse. ACCs were typically very successful people who were coming towards the end of their careers and potentially had a lot to lose.

63. BDO considered that there was also a risk that ACCs became too close to management. Management normally had some control over the appointment process for the audit committee, which was more of a risk in smaller companies. The appointments process in larger companies was more formal and there was less likely to be a dominant shareholder. The higher up one went in the FTSE 350, ACCs were more likely to feel that they had a regulatory purpose, as opposed to being a director who had also been asked to chair the audit committee. All FTSE companies now had nomination committees. There were however a lot of common members across audit committees of FTSE companies. It might also be the case that if someone was setting out on a subsequent career as an ACC, they did not want to be seen as being

difficult to deal with. The recent survey by PwC 'Audit Today and Tomorrow' supported BDO's views about the limitations of ACCs.

64. Time and resources available to ACCs was an increasingly limiting factor because more responsibility was going to be put on the ACC with the new FRC regulations. Although ACCs could be considered to be well remunerated, especially in the larger FTSE companies, they effectively had to take responsibility for the whole annual report and the new regulations were quite onerous.

65. ACCs in theory had the use of the company secretary and were allowed to take outside advice at the company's expense. Around eighty per cent of ACCs, like CFOs, were Big 4 Alumni. This was linked to BDO's earlier point regarding tacit collusion. In BDO's view, the Big 4 acted independently of each other and once in every 45 years when they actually competed they competed fiercely; however, together they all defended their market against anyone else entering it.

66. BDO agreed with the CC that investors had more to gain from switching auditor and less to lose than the company management. Investors gained as the quality of audit improved in ninety per cent of cases. It was a myth that there was significant time and expense involved for a company when switching auditor. Switching involved the risk of the unknown, and the CC's research showed that companies only really switched when the relationship had irretrievably broken down.

67. BDO had people who monitored opportunities for BDO with its key target companies, for example, when things were going badly between a company and their incumbent auditor or when a partner rotation was coming up or the appointment of a new FD. BDO also had a cross-stream team of managers and partners with some support from either local or central marketing.

68. The Big 4 treated each other differently compared to how they treated BDO. In terms of pricing decisions, there was probably not a lot of difference between BDO and the Big 4. The Big 4 however tended to comment on BDO's lack of capabilities to further their own interests. The Big 4 would seek to provide an impression that their international network and audit quality was far superior and that they were the only auditors that could do very complex work.

69. BDO considered that the Big 4 priced low when they were competing with each other, but this happened (on average) once every 48 years for a given company. However the stability of the market share was such (and the switching rate so low) that the Big 4 could afford to low-ball either to keep BDO out of the market or compete with each other. BDO felt that there was premium pricing in 99 per cent of the market and a "mad scramble to the bottom" in respect of the 1 per cent that might change in any given period.

70. BDO would not compete on price to the extent that it would lead to a chase to the bottom and damage its underlying business. [✂] was a good example of BDO being prepared to lower its price to secure the work. A Big 4 auditor had carried out the work in the previous year for £[✂] and BDO tendered at the very competitive price of £[✂]. BDO was told that all the Big 4 firms would tender even lower so it decreased its offer which created a chase to the bottom. Whilst BDO would consider buying market share, it would not try to overcompensate by driving the price so low it compromised its economic model. BDO needed to attract business through a package of offers rather than focusing solely on price. There would however be occasions where BDO would be prepared to be very aggressive.