



## **Grant Thornton Response to the Competition Commission ("CC") working paper entitled "Views of investors and other stakeholders"**

1.1 This memorandum sets out the response by Grant Thornton to the Competition Commission's ("CC") working paper entitled "Views of investors and other stakeholders" ("the working paper") which was issued on 20 November 2012.

1.2 The CC notes at paragraphs 79(a) and 80 that a minority of investors consider the Big 4 firms to be better than the other audit firms. However the CC does not attempt to quantify how small this minority is, so little weight can be placed on the point as it stands. Grant Thornton has only been able to identify one example in the working paper where a respondent apparently told the CC that the Big 4 were 'the best' (Paragraph 30(b)). We believe the CC should quantify more explicitly what proportion of investors consider the Big 4 firms to be better. Further the CC should not interpret views such as the Big 4 'provide greater confidence' (Paragraph 30(a)), as suggesting that the Big 4 are higher quality, as this may simply refer to the 'IBM effect' rather than actual quality.

1.3 Regarding auditor changes, in paragraph 79(b) the CC states that 'for some a change particularly from a Big 4 to Mid Tier auditor was seen as an issue and would raise concerns'. However this summary is not consistent with the evidence presented in the working paper, which does not refer to concerns about switching from one of the largest four firms to a mid-tier auditor in particular (paragraphs 41 and 42). This point should be corrected.

1.4 On a related note, the CC fails to highlight in its summary/conclusions the important point that many of the investor views presented in the working paper do not draw a line between the Big 4 and others but between the Big 4/large mid-tier firms and others. See for example:

- Paragraph 32, 'the identity of the auditor made no difference within the 'top 6–8' firms';
- Paragraph 34, 'no suggestion that audit firms immediately outside the Big 4 would be a cause for concern';
- Paragraph 36, 'no issues with one of the top four to six firms auditing any of the companies in the FTSE 350'
- Paragraph 37, 'no barriers from an investor's perspective to more FTSE 250 audits being conducted by Mid Tier firms'
- Paragraph 38, 'no concerns with the larger mid-tier firms auditing companies in the FTSE 350'.

We consider that the CC should make clear in its summary section that for these investors, large mid-tier firms were perfectly acceptable alternatives to the Big 4.

1.5 Finally, we note that a number of papers have been issued by investors in the context of the audit policy proposals issued by the European Commission which are currently the subject of consideration by the European Parliament and the European Council of Ministers.

In particular we note two papers<sup>1</sup> issued by the Universities Superannuation Scheme Limited ("USS") which are jointly signed by large EU institutional investors and individual investor associations who manage over €1.66tn on behalf of their members/investors. In these papers the signatories call for a more diverse audit market as they consider there are too few large auditors providing audit services to the largest listed companies. Whilst the European debate focuses on a number of areas of audit regulation, the area of audit market concentration and a lack of players in the market is the subject of discussion and therefore these views are relevant. The CC may therefore wish to take these views into account when forming its conclusions.

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<sup>1</sup> USS papers available at <http://www.uss.co.uk/Documents/Audit%20-%20a%20long-term%20investor%20position%20paper%20on%20proposed%20EU%20reforms%2022%20Nov%202012.pdf> and <http://www.uss.co.uk/Documents/Letter%20to%20Commissioner%20Barnier%20on%20EC%20Audit%20Reforms,%2018%20Sept%202012.pdf>