

## Cardiff Business School

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4<sup>th</sup> November 2011

Dear Sir/Madam,

I am writing in response to the Competition Commission News Release dated 21<sup>st</sup> October 2011, which announced the referral of the market for the supply of statutory audit services by the OFT to the Competition Commission for investigation. In particular, I note that the Commission is inviting evidence on this issue and would like to inform you that, along with a colleague at Cardiff Business School (Dr Richard Baylis) and at the University of Nottingham (Professor Chris Pong), I am presently engaged in a research project into the incidence and nature of restrictive auditor clauses in corporate lending agreements.

The research is at a relatively early stage, though we already have some preliminary findings. We feel that restrictive auditor clauses in these contracts (particularly those which restrict borrowers to a big 4 auditor) are worthy of investigation for a number of reasons, not least the fact that they were a major topic of discussion in the House of Lords Economic Affairs inquiry and yet the debate thus far has been based largely on anecdote. Naturally, should these clauses be prevalent and binding in practice, they would represent a serious barrier to entry for non-big 4 auditors because companies depend very heavily on debt markets for financing.

We anticipate completion of this part of our research in the spring/summer next year and thought it worthwhile to notify the Competition Commission of our work in case it is of interest to those involved in the inquiry. In addition to keeping you abreast of our findings (should you be interested), we are happy to cooperate where possible during the course of your investigation by, for instance, presenting our findings to those involved with the inquiry.

Yours faithfully,

Professor Mark Clatworthy