

Dipen Gadhia
Inquiry Manager
Statutory Audit Investigation
Competition Commission
Victoria House
Southampton Row
London WC1B 4AD

11 June 2013

Dear Dipen

Response to Notice of a Further Possible Remedy

This letter sets out BDO's Response to the Competition Commission's ("CC") Notice of a Further Possible Remedy, published on 5 June 2013.

- 1 We support the inclusion of the CC's further proposed remedy, as part of a package of remedies. We would not consider it to be an appropriate substitute for any of the other remedies which the CC has been considering to date, such as mandatory tendering.
- 2 We would support the Financial Reporting Council (FRC) being given a secondary duty to promote competition between firms providing audits to FTSE 350 companies. Indeed, we would support the FRC being given a secondary duty to promote competition in the wider audit market more generally.
- 3 We note that paragraph 6 of the CC's Notice of 5 June 2013 refers to "*a secondary duty to promote competition between firms providing audits to FTSE 350 companies*", while paragraph 7 of the CC's Notice refers to "*competition between firms providing audit services to FTSE 250 companies*". It is not clear to us whether this distinction is deliberate and (if so) whether this is a reflection of the higher levels of concentration in the FTSE 100 audit market.
- 4 In relation to the FRC's reports on audits of large companies, we refer to our response of 18 March 2013 to the CC's Notice of Possible Remedies, in particular at paragraphs 3.2.1 to 3.2.3. We agree that companies and shareholders need more information on audit quality to help them compare auditors and make more informed choices. However, in order for this to happen, companies and shareholders need more of the right information, not simply more of the information which is currently produced. A "rebalancing" of AQR effort, coupled with a secondary duty for the FRC to promote competition between audit firms, could help companies and shareholders to compare auditors more easily and assist shareholders to influence the auditor appointment decisions of companies in which they hold shares.
- 5 Regulators of professional services increasingly have a duty to promote competition, because they can help improve competition and outcomes for customers. Such a requirement also enables the regulator to adapt to changing market conditions. In particular, regulators of financial, legal and health services now have duties relating to competition. The Financial Conduct Authority has been set a strategic objective to ensure that financial services markets function well¹ and the Legal Services Board (LSB) has a requirement to promote competition in the provision of services provided by authorised persons².



The LSB may be able to give guidance to the CC on how best to ensure that such a provision works to improve market outcomes.

We can see no reason to treat the provision of audit services differently. The CC's analysis clearly indicates the need for audit regulators to promote competition. BDO therefore encourages the CC to give the FRC a duty to promote competition in the audit market.

Please let me know if any of these points need clarification.

Yours sincerely

James Roberts
Partner
For and on behalf of BDO LLP

Footnotes:

- 1 Section 1B of the Financial Services and Markets Act 2000, as amended by The Financial Services Act 2013.
- 2 Legal Services Act 2007, section 1(e)"