

## PwC's response to the Evidence of Tacit Coordination working paper

- 1 This paper sets out PwC's response to the CC's working paper on the Evidence of Tacit Coordination (**Tacit Coordination WP**).
- 2 We agree with the preliminary conclusion set out in the Tacit Coordination WP that there are a number of features of the market for the audit of FTSE 350 clients that would not be conducive to tacit coordination: in particular, the frequency of switching, uncertainty around the value of engagements and the frequent changes in the constitution of the FTSE 350.<sup>1</sup>
- 3 We also agree with the CC's further conclusion that the evidence does not support a finding of tacit coordination in this market.<sup>2</sup> Indeed, we believe the CC understates the position. In particular, in a market where there are switching costs, tacit collusion is only possible where there is a lack of effective competition for tenders and/or competitors do not target each others' clients. However, the CC has already found that :
  - (a) Competition for tenders is intense;<sup>3</sup>
  - (b) The four largest audit firms make considerable efforts actively to target the audit clients of their competitors;<sup>4</sup>
  - (c) The largest firms rarely decline an opportunity to take part in a tender;<sup>5</sup> and
  - (d) When the largest audit firms do take part in a tender, they take the process seriously as poor performance in a tender could be damaging to the audit firm's reputation.<sup>6</sup>
  - (e) Market shares for the supply of audit services to the FTSE 350 are both unstable, and change in their constitution as the members of the FTSE 350 change over time.<sup>7</sup>
- 4 We also note the CC's conclusion that "*this is not a market in which prices are particularly transparent*".<sup>8</sup> We agree with this: although prices are published, it requires some effort to look behind those figures to gain an understanding of, for example, the scope of the audit, the complexity of the audit, and the risk profile of the company. As with any professional service in a business-to-business context, direct comparability of a bespoke product is not straightforward. However, audit is unusual in this respect because the annual fee is published, which ensures far more transparency than is the case in relation to non-audit fees, legal fees, or the fees of other professional service providers.

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<sup>1</sup> Paragraph 56. See also paragraph 46.

<sup>2</sup> Paragraph 57.

<sup>3</sup> See Nature and Strength of Competition working paper, paragraph 165.

<sup>4</sup> Paragraph 53.

<sup>5</sup> Paragraph 55.

<sup>6</sup> Paragraph 55.

<sup>7</sup> Paragraph 51.

<sup>8</sup> Paragraph 28.

- 5 Finally, we do not accept the CC's suggestion in the Nature and Strength of Competition working paper (citing evidence submitted in relation to the tacit coordination theory of harm) that because audit fees are not perfectly transparent, this prevents large companies from benchmarking audit fees effectively and thus assessing the competitive options available to them<sup>9</sup>. There are significant differences between the level of detailed information that audit firms would require in order to facilitate tacit coordination in the market (which would not be possible in any event for the reasons explained above), and the information that is necessary for companies to be able to carry out a worthwhile and effective benchmarking exercise as regards their audit fee against a group of comparable companies.<sup>10</sup>

**PricewaterhouseCoopers LLP**

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<sup>9</sup> See paragraph 98 in the Nature and Strength of Competition working paper.

<sup>10</sup> This point is also addressed in our response to the Nature and Strength of Competition working paper - as the CC's engagement data shows, companies have been successful in driving down fees in recent years, which suggests they must have a good idea of the competitive fee level.