

The Director
Market Investigation into Statutory Audit Services
Competition Commission
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6 September 2012

Dear Sirs

Audit Market Investigation - Market definition

1. Introduction

Mazars, the international integrated audit and advisory organisation with 14,000 staff in 69 countries, is pleased to submit its comments on the above working paper.

2. Our overall view

On practical grounds, our overall view is that we support the Competition Commission's initial view that the relevant market for the purposes of its investigation is the provision of statutory audit services to companies that are, or have recently, been listed on the London FTSE 100 and FTSE 250 (collectively known as the 'FTSE 350'). The relevant geographic scope is the UK. As we set out below, and as we discussed in our letter to you dated 16 August 2012 entitled 'IFF Survey- matters arising therefrom', we do, however, believe it is important to segment the FTSE 350 in its two component parts to a greater extent than seems to have been the case in the investigation until now.

It may also be necessary for some purposes to segment within the FTSE 100 those leading 20-30 or so companies at the top end of the FTSE 100 in terms of market capitalisation and/or the leading companies in sectors such as banking, insurance, infrastructure and utility companies which many would feel are the nation's companies in systemically risky sectors. Many of these sectoral companies will, of course, be at the top end of the FTSE 100.

3. Need for appropriate segmentation of the FTSE 100 and FTSE 250

We would encourage the Competition Commission to consider more frequently adopting a policy of segmentation within the FTSE 350 than has occurred to date in the investigation. We do, however, welcome your statement in paragraph 46 that market definition does not preclude you from assessing competition within sub-sections and that you will consider these whenever they are relevant..

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The reasons for greater segmentation include:

- The FTSE 100 is by far the largest element of the FTSE 350 with the 59 companies that have been in the FTSE 100 for at least 10 of the last 12 years representing circa 70% of the combined market capitalisation of the FTSE 350 and over 60% of their audit fees.
- The systemically risky companies for the UK economy whether identified by size or sector are all, or at the very least nearly all, in the FTSE 100.
- Different remedies may be needed for different parts of the FTSE 350 as BDO, GT and Mazars are saying there are between 30 and 50 companies which they could not audit on a sole basis at present and again all of these, or nearly all, are in the FTSE 100.
- As discussed in our letter of 16 August, the switching rates are, using the Competition commission's dataset, much lower in the FTSE 100 than in the FTSE 250 and this is also borne out by FAME data analysed by OFT which suggested FTSE 100 switching rates are only a little over half of those of their FTSE 250 counterparts.

4. Support for appropriate sectoral segmentation

We also welcome your statement that 'banking and insurance are two sectors that may require separate analysis depending on the issue'. For this and the other 'systemic' sectors, that we identified above in Section 2, separate analysis may, for instance, be needed either because not all of the Big 4 have a significant audit presence in one or more of the sectors and/or because different challenger firms may have less expertise at present in some of these sectors than others.

5. Right to focus on the FTSE 350

Whilst there will undoubtedly be some companies outside the FTSE 350, and indeed not listed, which are larger or more complex than some of the smaller members of the FTSE 350 this is by and large an issue around the margin. Moreover, listed companies merit special attention because of their diverse ownership, by definition, and the obligation on them to uphold high standards of corporate governance.

Whilst there are high levels of concentration in audit appointments amongst the four dominant players in the fully listed market below the FTSE 350, but less so in the AIM market, the issue is at its most acute in the FTSE 350 and hence it is appropriate that the investigation focus on this segment of the market.

6. Right to focus on UK

Proposals from the European Commission which are currently before the European Parliament and the Council of Ministers would, if approved, enable the creation of European Union-wide audit firms and make it easier for auditors to work across Member State boundaries. We do not think this will materially increase the supply of audit firms, however, as the network model means firms in a network from another country are unlikely to compete with their network member from the UK.. In these circumstances, it is probably right to focus on the UK on the supply side. In addition, of course, the Competition's Commission's authority only applies within the UK, again suggesting a UK focus is appropriate.

With the growing importance of sectors such as mining and natural resources it should be noted that a modest number of FTSE 350 companies will neither have their main location in the UK or even their headquarters here but we do not think this is a significant issue.

7. Conclusion

If there are any issues in our response which you would like to discuss further, please do not hesitate to contact David Herbinet, UK Head of Public Interest Markets on 0207 063 4419 or Anthony Carey on 0207 063 4411.

Yours faithfully

Mazars LLP

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