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Competition Commission
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By email: auditors@cc.gsi.gov.uk

21 March 2013

Dear Dipen

Statutory Audit Market Inquiry: response to Provisional Findings

We welcome the opportunity to respond to the CC's Provisional Findings notified on 22 February 2013 and published on 26 February 2013.

We welcome the CC's Provisional Findings. However, we have the following comments on them:

1 Benefits of switching

We consider that the CC should re-examine its calculation of the price effects of switching. Oxera will make a separate submission on this point.

2 Market concentration

We note that the CC has not addressed the central question of whether four suppliers are sufficient to serve the Reference Market, particularly given the near-total monopoly of the Big Four firms in the supply of audit services to FTSE 100 companies. We encourage the CC to consider further the effect of constrained choice and concentration on competition in the Reference Market. We note that the investor survey conducted by Oxera found that:

"All except one consider that there is a problem with choice in the large-company audit market. The problem can be restrictions on choice within the Big Four (due to conflicts), or a desire for a choice of more than four firms. The benefits of greater choice are said to be linked to confidence and resilience in capital markets, as well as to better quality, innovation and pricing in the audit market. Only one investor surveyed considers that having four firms is enough."

3 "4 to 3"

The existing levels of concentration in this market mean that each of the Big Four firms is "too big to fail", but we consider that the CC has given insufficient consideration to this scenario.

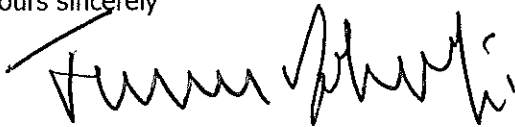


4 **Shareholder confidence**

We consider that the issue of auditors' representation of shareholders' interests is more nuanced than some respondents to the CC's Provisional Findings may suggest. In our view, the key question is whether shareholders can be confident that the current auditors act in the best interests of shareholders, not necessarily whether such auditors have actually acted or will act in pursuit of other interests. If the *status quo* does not deliver the requisite level of assurance to shareholders, then both companies and auditors need to be seen to be taking steps in order to rectify this.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Roberts', written in a cursive style.

James Roberts
Partner
BDO LLP