

News release

Grant Thornton response to IOSCO consultations on global audit market highlights threat to capital markets

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The current structure of the large company audit market is not sustainable and could threaten the stability of global capital markets, Grant Thornton said in its submission to IOSCO's consultations on the global audit market. Grant Thornton welcomed IOSCO's interest as recognition of institutional shareholder concern over excessive concentration among just four firms as auditors to the world's largest listed companies.

The big 4 dominate the audit market for FTSE 350 companies and their equivalents around the world, with concentration as high as 96% in some markets despite other firms, including Grant Thornton member firms, having the capacity and proven capability to audit many such companies.

The collapse of a big 4 firm could now leave as many as 20% of the 7,200 largest businesses in the G20 without an auditor, creating instability in global markets.

Grant Thornton believes addressing market misperceptions about auditor capabilities, which manifest in restrictions on choice of auditor imposed on companies by financial intermediaries such as banks and underwriters, is critical to addressing concentration and thereby preserving market stability. Restrictions often state that only the big four audit firms are authorised to provide services to a company.

Restrictions exclude firms other than the big four from acting as auditor, from conducting due diligence work, and/or from advising on transactions. Grant Thornton has numerous documented examples of these restrictions from the United Kingdom and the United States, and other examples from France, Germany, Spain, and a dozen other countries.

Grant Thornton's submission to IOSCO outlines the four steps needed to remove artificial restriction on audit choice:

- 1 Regulators should require companies to disclose publicly third party agreements that limit auditor choice.
- 2 Regulators should discourage companies and financial intermediaries from entering agreements containing unwarranted restrictive clauses. Such clauses are often

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'boilerplate' provisions that are included without regard to the needs of the company, audit quality or the capabilities of different audit firms.

- 3 Regulators should publish balanced findings of their inspections of individual audit firms, so that those who determine and influence audit firm appointment decisions can do so armed with an objective assessment of the capabilities and attitude to quality of various firms.
- 4 Institutional investors, other finance providers and intermediaries should state their policies on audit firm appointments.

Steve Maslin, who chairs the Partnership Oversight Board at Grant Thornton UK LLP, says: "We welcome IOSCO's consultations, which reflect growing concern among shareholder groups and capital markets that the current excessive level of concentration is unsustainable and could threaten capital markets."

"Shareholders have a right for their investments to be protected as far as possible by thorough auditing. Diluting excessive concentration would reduce the risk to markets in the event of a catastrophic failure at one firm."

Ed Nusbaum, Chief Executive Officer of Grant Thornton International, says: "There are several accounting organisations which have the expertise, global reach and resources to conduct large international audits of the highest quality. The current level of concentration in the large international audit market is therefore not a necessity. The only long-term solution is a sustainable net increase in the number of audit firms with meaningful market share. Simple and effective steps to reduce excessive concentration should go hand in hand with measures to build audit quality on a sustained basis."

"We support proposals to relax rules on audit firm ownership, but we do not believe that opening up ownership would significantly reduce concentration. Instead, the world's leading regulators must normalise large audit buying patterns which are artificially skewed by restrictive covenants on auditor appointments and incorrect market understanding of individual audit firm quality and performance."

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Notes to editors:

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