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Ownership rules for audit firms: Commission services publish independent study on the impact on the audit market

The Internal Market Directorate General has published an independent study on the ownership rules that apply to audit firms and their consequences on audit market concentration. The study analyses whether changes to the ownership rules of audit firms might help increase the number of international players in the audit market. At present, the European Statutory Audit Directive requires that auditors hold a majority of the voting rights in an audit firm and control the management board. The study will contribute to DG Internal Market's work on how to improve competition in the audit market.

Internal Market and Services Commissioner Charlie McCreevy said*: "A large majority of respondents to the public consultation on possible reform of liability rules in the EU were concerned about the issue of lack of choice in the market for large international audits. I take those concerns seriously. The question now is how to create opportunities for new players to enter the market. The Oxera study provides valuable input to this debate and will help us in deciding any further steps"*

Key conclusions of the study

- The audit market for major listed companies is dominated by the Big Four audit firms. For the smaller audit firms, important investments might be necessary over years in order to expand and to enter the international audit market.
- Analysis of an investment model developed to assess such potential expansion plans indicates that an audit firm owned by external investors, instead of auditors, might take more easily the decision to expand into the market of large audits. One of the reasons is that existing ownership structures may be estimated to increase audit firms' cost of raising capital by perhaps as much as 10%.
- Nevertheless, restrictions on access to capital appear to represent only one of several potential barriers to entry. There are other barriers which also play an important role: reputation, the need for international coverage, international management structures, and liability risk. The impact of liability risk on the cost of capital can be significant and may lead to capital rationing.
- There may also be good reasons for audit firms to stick to their current structures: for example, to retain their human capital. From the regulatory point of view, existing ownership structures have been justified by the necessity to protect independence of audit firms. However, the analysis of the decision-making processes in large audit firms indicates that alternative ownership structures are unlikely to impair auditor independence in practice. Specific conflicts of interest could be dealt with through the establishment of appropriate safeguards.

The study is available at:
http://ec.europa.eu/internal_market/auditing/market/index_en.htm
http://ec.europa.eu/internal_market/auditing/market/index_fr.htm
http://ec.europa.eu/internal_market/auditing/market/index_de.htm