

Auditors' liability: Commission publishes independent study on economic impact of current rules

The European Commission has published an independent study on the economic impact of current EU rules on auditors' liability regimes and on insurance conditions in Member States. The study analyses the structure of the auditing market and its possible development in the future, describes the existing limitations in the insurance market for international audits, examines the economic needs for limiting auditors' liability and compares several possible methods for limiting liability. It represents the first EU-wide scale economic study on this subject. The preparation of the study has been accompanied by the creation of an Auditors Liability Forum composed of market experts (see [IP/05/1420](#)).

Internal Market and Services Commissioner Charlie McCreevy said: *"This study provides valuable input into our examination of auditors' liability. It highlights that large claims may put at risk an entire auditing network. There are important issues at stake. I recognise opinions are divided about how we should address these. I hope the discussion that this report will engender will allow us to reach a clearer understanding of how best to address the real problems that are there and will not go away. Given the important role auditing companies play in our capital markets, we will soon present our views on possible ways forward for further discussion."*

Key conclusions of the study

The four key issues identified in the study are:

- The international market for statutory audits of large and very large companies is highly concentrated and dominated by the Big-4 networks. The likelihood of new entrants into this market is very limited in the coming years. Additionally, under the current circumstances, middle-tier firms are unlikely to become a major alternative if a Big-4 network fails.
- The level of auditor liability insurance available for higher limits has fallen sharply in recent years. The remaining source of funds to face claims may essentially be the income of partners belonging to the same international network. Constantly large claims might therefore put at risk an entire network.
- The failure of a network could lead to difficult consequences for the wider economy like a significant reduction in large company statutory audit capacity possibly creating serious problems for companies whose financial statements need to be audited.
- A limitation on auditor liability would reduce this risk. While there exist a number of variants of statutory audit liability limitation, the diversity of circumstances in terms of both audits and company size is such that it is unlikely that a one-size-fits-all EU-wide approach is the most useful.

The study does not necessarily express the Commission's official view. The external consultant, London Economics, remains responsible for the facts and the views set out in the report.

Next steps

The Commission will issue a report based on this study before the end of 2006. Stakeholders will be invited to give their views.

The Commission welcomes any written reactions to the study, which can be e-mailed to: markt-F4@ec.europa.eu

More information on auditing in the EU is available at:
http://ec.europa.eu/internal_market/auditing/index_en.htm