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**European Forum on Auditor's Liability**

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Mr. Chairman,  
Ladies and Gentlemen,

I would like to highlight some of the issues covered in the London Economics Report and further issues discussed within the Liability Forum.

I think we all agree that a healthy and sustainable audit profession is crucial to the operation of the capital markets across the EU and even around the world. The 8th Company Law Directive introduces a good and consistent framework for a structural and regulatory harmonisation of the profession within the EU. FEE welcomed that the European Parliament, the European Commission and the Member states have agreed that the case for a liability reform for auditors within the EU should be reviewed after the publication of the directive.

The first milestone of this review is now available. We welcome the publication of the London Economics Report. The Report is in my view a well presented authoritative analysis of the current situation. The Report reflects input from a broad range of stakeholders including insurance companies, the business community and institutional investors, as well as the profession and the large and middle-tier audit firms. During the forum meetings we all had a good dialogue about the difficult issues to raise.

London Economics gives a comprehensive view of the structure of the audit profession. The results show that the big four and the middle tier networks are extremely important for a sustainable EU assurance market.

The analysis proves that the profession is highly exposed to litigation and liability risks. The main risks are concentrated in the big 4 networks as a natural consequence of the market developments after the breakdown of the Andersen network in the last years. This development has led as shown in the report to critical situations where the availability of commercial insurance at economically viable prices has all but disappeared. London Economics remarks that the current insurance cover for the big 4 is less than 5% of some of the large claims faced by auditors of the largest multinational companies. This situation intensifies the degree of risk exposure of the audit networks.

As mentioned in our press release FEE agrees with the principle that statutory auditors must be appropriately responsible for their statutory audit but to no greater extent than is reasonable. Actions to reform auditors liability throughout the EU is in the public interest. In my view it is not the protection of the audit profession, we have to talk about the protection of the capital markets and the companies acting on these capital markets. London Economics discussed several scenarios in which one or two of the big networks could fail due to a catastrophic claim. The breakdown of the big four network would have a dramatic impact on the audit market. London Economics demonstrates that under current circumstances financial markets could be affected seriously.

The European Commission is expected to address the report required by the Directive of May 17, 2006 on statutory audit to the European Parliament and the Member States. For legal and other reasons FEE does not believe that a single solution would be practical. London Economics discussed several ways how to reform liability and how to reduce the overall risk exposure of the networks. I think there are currently several proposals under discussion and we heard from André Killesse in his presentation about the Belgium way to reduce liability. I think the way how the liability reform will technically be implemented is one side of the story. The more important question is:

Will a possible liability limitation affect the quality of the audit? Will the audit profession reduce the efforts, because liability is now limited under a possible new regime? London Economics states on page 171: "The majority of the respondents from all groups (Big-4 firms, middle-tier firms, companies and institutional investors) think that there is no difference between financial statements audited under a capped liability regime or an uncapped regime...". Unlimited liability is not a driver of audit quality. There is no evidence that those countries with unlimited auditor liability achieve higher quality audits as a result of this environment or that those countries which allow liability limitation for auditors suffer from lower quality audits or higher numbers of business failures. Unlimited liability encourages defensive auditing. It also makes a "false promise" because no firm has either unlimited assets or unlimited insurance.

Audit quality has several dimensions and cannot in my view be reduced to one single category. I think the reputation of an audit firm, the regulatory environment and the internal policies and well developed training programs of the audit firms ensure high quality audits within the profession.

What the next steps we can expect from the Commission? I do not feel it is for FEE to advise on what specific recommendations the Commission might make. However, FEE would welcome some sort of consultation process to be issued until the end of the year so that the public will be able to discuss the current points of view and the possible issues highlighted by the Commission Paper. A well-balanced reform would create a fair and sustainable environment for the essential work that auditors perform.

Let us conclude: The London Economics Report forms a sound basis in order to further discuss the issue. FEE expresses confidence that the London Economics study will highlight the necessity for each EU Member State to address urgently the problem of auditors liability.

The format of the forum and the work of the forum was excellent. The participants of the forum presented to LE an inside view into highly sensitive business information. This was very beneficial to the process. I hope that there will be a possibility that the forum will continue its work during or after the consultation process in order to find a good solution for a healthy and sustainable European audit profession which works in the public interest.

Thank you very much.