

AUDIT MARKET INVESTIGATION

Issues statement

Introduction

1. On 21 October 2011, the OFT, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), made a reference to the CC for an investigation into the supply of statutory audit services to large companies in the UK. Under the terms of reference, 'statutory audit services' means an audit conducted by a person appointed as auditor under Part 16 of the Companies Act 2006, while 'large companies' means companies that may be listed from time to time on the London FTSE 100 and FTSE 250 indices.¹
2. Our statutory remit is therefore to assess competition in the market or markets for the provisions of statutory audits to large companies. We are required to determine whether any feature or combination of features of each relevant market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the UK or a part of the UK.² If we find that there is such a prevention, restriction or distortion of competition, there will be an 'adverse effect on competition' (AEC).³
3. This issues statement is based on the evidence we have reviewed to date⁴ with respect to the supply of statutory audit services to large companies in the UK, and sets out initial theories of what might be adversely affecting competition in the market and what might be adverse outcomes. This will provide a framework for our investigation. The points in this document should be seen only as topics for investigation, rather than views, let alone findings or conclusions.
4. The remainder of the document is structured as follows:
 - (a) we set out some background and characteristics of the UK audit market,⁵ drawing on existing evidence;
 - (b) we describe possible adverse outcomes that might be present in the market;
 - (c) we suggest six candidate theories of harm that may explain how and to what extent certain market characteristics or combinations of characteristics may be adversely affecting competition and leading to the possible adverse outcomes we describe; and
 - (d) we consider the effect of the risk of exit by one of the four largest firms on our investigation.
5. To submit evidence, please email auditors@cc.gsi.gov.uk or write to:

¹ We refer to those collectively as the 'FTSE 350'.

² See [section 134\(1\)](#) of the Act.

³ As defined in [section 134\(2\)](#) of the Act.

⁴ The principal evidence we have drawn on has been provided by the OFT and the published reports by the House of Lords (March 2011) and Oxera, *Competition and Choice in the UK audit market*, April 2006.

⁵ The term 'UK audit market' refers to the market set out in the OFT terms of reference. Unless specifically stated in the paper, it does not include audit services to companies outside the FTSE 350.

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Background and characteristics

6. The provision of audit services to large companies (defined more broadly) has been the subject of interest over a prolonged period. The eight principal firms that existed in the 1980s⁶ consolidated through a series of mergers to five firms.⁷ Then, in 2002, the collapse of Enron led to Arthur Andersen, its auditor, being sold to other large auditors. In the UK this was to Deloitte, while in other countries this was to Ernst & Young or PwC.
7. Given this consolidation that has resulted in a sector comprising four major participants, the OFT has kept the sector under review since 2002. It has also participated in external regulatory initiatives or inquiries in relation to competition in the audit market.
8. The banking and financial crisis of 2008 led to renewed scrutiny with regard to both competition in the audit sector and the part that auditing played, and the role it could play in preventing any repetition, by the House of Lords Select Committee on Economic Affairs, and by the European Commission. The former published its report on 30 March 2011,⁸ while the latter has recently made proposals for legislation relating to the provision of audit services.⁹
9. We have developed theories of harm based on an initial consideration of existing evidence, which indicates:
 - (a) Significant and non-transitory barriers to entry and expansion. Existing firms and potential entrants must gain relevant experience, establish a reputation, overcome customer switching costs and comply with regulatory requirements. An international capability is necessary to serve large clients with significant operations outside the UK.¹⁰ Some of the evidence we have seen suggests that certain lenders will only lend to companies that appoint one of the four largest firms as auditors.
 - (b) High concentration. In 2010, the four largest firms¹¹ earned 99 per cent of the audit fees paid by FTSE 350 companies.¹² Concentration has increased during the past 25 years following a process of consolidation (see paragraph 6).¹³

⁶ Arthur Andersen, Arthur Young & Co, Coopers & Lybrand, Ernst & Whinney, Deloitte, Haskins and Sells, Peat Marwick Mitchell, Price Waterhouse, Touche Ross.

⁷ In 1987 Ernst & Whinney merged with Arthur Young to become Ernst & Young, while later in the year, Deloitte, Haskins & Sell merged with Touche Ross to become Deloitte & Touche. In 1998, Price Waterhouse merged with Coopers & Lybrand to form Pricewaterhouse Coopers (PwC).

⁸ House of Lords Select Committee on Economic Affairs - Auditors: Market concentration and their role March 2011.

⁹ http://ec.europa.eu/internal_market/auditing/reform/index_en.htm.

¹⁰ OFT Decision, paragraphs 1.7 and 5.34.

¹¹ The four largest firms are PwC, KPMG, Ernst & Young, and Deloitte.

¹² OFT Decision, paragraph 5.50.

¹³ OFT Decision, paragraphs 4.8–4.11.

- (c) Not all of the four largest firms are present in certain industries, such as banking, mining and utilities, which means that concentration in these sectors is even higher than the average concentration for the FTSE 350.¹⁴
 - (d) A significant gap in size between the four largest firms and 'mid-tier' firms.¹⁵ In the financial year ended 2011, the audit income for the four largest firms ranged from £403 million to £893 million, compared with £133 million for the largest mid-tier company. The latter has 209 partners, compared with 534 for the smallest of the four largest firms.¹⁶
 - (e) The four largest firms provide a wide range of non-audit services to their clients. In 2009, the ratios of non-audit to audit fees for the average FTSE 100 and FTSE 250 companies were 48 per cent and 60 per cent respectively.¹⁷
 - (f) Companies switch auditor infrequently. OFT analysis suggests that between 2002 and 2010, average annual switching rates were 2.3 per cent for FTSE 100 companies and 4 per cent for FTSE 250 companies.¹⁸
 - (g) Companies tender their auditing services infrequently. A survey conducted by Oxera in 2006 found that nearly 75 per cent of the companies surveyed tendered only once every five years or less, and more than 70 per cent of the FTSE 100 had not held a competitive tender in the preceding 15 years.¹⁹
 - (h) Auditing is subject to an extensive body of regulation which sets out how an audit should be conducted.
 - (i) Size has not guaranteed stability. The experience of Andersen illustrated that while scale and reputation are hard to acquire, they might be rapidly lost if client confidence is lost and/or regulators intervene.
10. Collectively, these characteristics suggest a market with limited rivalry within it, and few external constraints. We will investigate this further and will consider whether there are any additional characteristics that may contribute to this situation. We set out below possible adverse outcomes and theories of harm on the basis of these characteristics.

Possible adverse outcomes

- 11. The characteristics described above suggest that certain features of the reference market might prevent, restrict or distort competition, alone or in combination. They may cause adverse effects on competition in the supply of services in the reference market or in a different market. We shall therefore assess whether or not the characteristics outlined in paragraph 9 (individually or in combination) give rise to detrimental effects on customers.
- 12. We have identified several possible adverse effects for investigation: (a) suboptimal audit quality and levels of innovation; (b) higher prices and costs; and (c) less competition in non-auditing markets. As our understanding of the audit market develops, we may investigate other outcomes and their possible causes.

¹⁴ OFT reference, paragraph 1.5.

¹⁵ Mid-tier companies refer to firms other than the four largest firms that carry out audits for smaller listed and unlisted companies in the UK. Some of them have clients in the FTSE 350. Examples include Grant Thornton and BDO.

¹⁶ *Accountancy Age*, 'Top 50 +50 Firms 2011'.

¹⁷ *Financial Director*, 'Audit Fees Survey 2009'.

¹⁸ OFT Decision, paragraph 1.6.

¹⁹ Oxera, 'Competition and Choice in the UK audit market' (April 2006), p iv.

Suboptimal audit quality and levels of innovation

13. The provision of audits is mandated by statute and supplemented by a significant body of regulation (and architecture of regulators) intended to ensure sufficient quality. At the outset, we note that given this regulation, we need to understand better the scope for competition on the basis of quality and innovation in the provision of statutory audits.
14. Lack of competition may result in suboptimal quality levels. Failure to innovate, for example in the auditor's methods of investigation or by a failure to keep abreast of trends in corporate reporting or financial strategy, could also reduce audit quality or hinder increased efficiency.
15. The objective of an audit is to express an independent opinion to a company's shareholders on whether the company's financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 2006. However, external stakeholders (such as potential investors, lenders etc) may also benefit from the credibility that auditing gives to those financial statements. This means that public confidence in the operation of capital markets depends, in turn and in part, on the credibility of the opinions and reports issued by auditors.
16. Therefore, if low levels of competition in the audit market adversely affect or are perceived to affect adversely the quality of audits, this could hinder the efficient functioning of wider capital markets. There are high-profile cases of apparently successful companies, with accounts validated by a major auditor, experiencing severe financial difficulty that was invisible to external stakeholders.
17. Excess audit quality (for instance, overly rigorous procedures) could lead to higher prices and costs, which we consider next.

Higher prices and costs

18. Given that audits are statutory requirements for large firms, it is possible that demand is inelastic.²⁰ Audit fees could be higher than if there was more competition, which would imply that firms can earn profits exceeding their cost of capital.
19. Previous research has suggested that auditors with high market shares can charge higher audit fees and that an increase in market concentration is associated with an increase in audit prices.²¹ However, we note that such analysis is complicated and subject to various limitations and assumptions (as noted by the OFT²²) and has been subject to criticism.²³
20. It is possible that higher audit fees may not necessarily be reflected in excess profits if a lack of competitive constraints has resulted in cost inefficiencies in the four largest firms due to, for example, unnecessary or inefficient procedure, inadequate cost control or 'gold-plating' of services.

²⁰ In this case the deadweight loss (ie loss of economic efficiency) is limited because demand is inelastic (ie it is not responsive to changes in price). Nonetheless the reduction in customer surplus could still be substantial, as auditors can exploit inelastic demand by setting high prices without incurring a significant reduction in revenue.

²¹ Analysis includes price-concentration model undertaken by Oxera, 'Competition and Choice in the UK audit market', April 2006, which was updated by the OFT in its reference.

²² OFT econometric analysis undertaken in support of the consultation document on the OFT's provisional decision to make a market investigation reference to the Competition Commission of the supply of statutory audit services to large companies in the UK.

²³ By one of the four largest firms: www.pwc.co.uk/eng/publications/competition-and-choice-in-the-uk-audit-market.html.

Less competition in non-auditing markets

21. The four largest firms provide a range of professional services to large companies other than auditing, such as tax advice, consultancy, corporate finance and transaction services. Having a limited choice of auditor might adversely affect competition in some of these other markets, particularly where the four largest firms have a significant share of the market. For example, the Oxera report suggested that auditor independence rules may impose limitations on a firm's choice of suppliers for accounting advice on transactions.²⁴
22. In addition, it is possible that an auditor has an advantage over other firms in winning contracts to supply large companies with certain professional services (or vice versa) due to its knowledge of the company. This would reinforce existing competitive constraints and may produce adverse outcomes in non-audit markets (in terms of price, quality and innovation).

Theories of harm

23. If we find that adverse outcomes have occurred, then the following theories of harm that we have identified may explain them: (a) high concentration and barriers to entry; (b) bundling of services by the four largest firms; (c) customer conduct; (d) regulatory distortions; (e) tacit coordination by the four largest firms; and (f) information asymmetries.
24. These theories of harm are not necessarily mutually exclusive. Equally, the list may not be comprehensive. As our understanding of the market develops, we may find that some or all of these theories do not hold, and/or identify others.

(a) The audit market is highly concentrated and there are high barriers to entry with the result that the four largest firms have market power

25. The audit market is characterized by high concentration. According to the OFT, the Herfindahl-Hirschman Index (HHI) figures for the FTSE 100 and the FTSE 250 are both well above the threshold typically considered to represent a highly-concentrated market.²⁵
26. The statutory audit market also appears to have high barriers to entry. They may be due to the specific knowledge required to operate in the market, the costs of raising capital for audit firms other than the four largest firms,²⁶ the costs of attracting and training staff and the fact that the existing size and reputation of an auditing firm plays a crucial role in a company's choice of auditor.
27. If the perception that having a firm other than one of the four largest firms as an auditor damages the reputation of a large company, this may make that company averse to appointing a firm other than one of the four largest firms. In this respect, it is worth noting that when becoming listed or entering the FTSE 350, some companies appear to replace their existing auditor with one of the four largest firms,²⁷ and it appears that certain lenders will only lend to companies that appoint one of the four largest firms as auditors (see paragraph 9(a)).

²⁴ Oxera, 'Competition and Choice in the UK audit market', April 2006, pp86–87.

²⁵ OFT reference, paragraph 5.49. The HHI for the FTSE 100 is 3,343 and the HHI for the FTSE 250 is 2,807. Figure in excess of 1,800 are usually considered to represent highly-concentrated markets.

²⁶ OFT reference, paragraph 5.43.

²⁷ Oxera, 'Competition and Choice in the UK audit market', April 2006, p35.

28. There are also barriers to entry for auditing large companies associated with sunk costs and economies of scale and scope. For instance, the four largest firms of auditors each possess an extensive and integrated international network, and they may be more able to provide additional services related to the audit.²⁸
29. High barriers to entry combined with a highly-concentrated market could give each of the four largest firms market power, and the ability to set higher audit prices, supply suboptimal audit quality (either lower or higher) and/or less innovation. The legal requirement to purchase statutory audits eliminates the risk of underprovision of the service, but may not be effective in ensuring optimal quality.
30. The situation could be even more severe where, because of a conflict of interest or in sectors where not all the four largest firms operate, the number of available audit firms is lower than four. We understand that this applies, for example, in the banking sector (see paragraph 9(c)).
31. Some market characteristics might reflect the outcome of competition over time. For example, the barrier to entry associated with reputation might not be an exogenous feature of the market, but may be due to the investment that the four largest firms have made in building expertise, quality of service and reliability, through years of competition. Acquiring a good reputation may require considerable expenditure which cannot be easily or quickly replicated (ie there are significant sunk costs associated with creating and maintaining a good reputation). This may, however, create a barrier to expansion by mid-tier and smaller auditors.
32. Similarly, the presence of economies of scale and scope could give efficiency advantages to larger firms and could explain a high level of concentration in the market. Nevertheless, even allowing for such factors, the quality of an audit might be lower, and the price higher, than in a less concentrated market. See further paragraphs 58 to 61.

(b) The four largest firms could bundle together services in order to create barriers to entry in the market for statutory audit and in related markets

33. Even if the audit itself is fairly standardized (due to prescriptive rules and standards), audit firms may offer a more varied product by supplying audit-related services such as advice on regulatory compliance, and assurance reviews of internal controls and processes. Further, as discussed in paragraph 21, many auditing firms, particularly the four largest firms, provide a range of non-audit services such as tax advice, transaction services and corporate finance.
34. Bundling of audit services together with audit-related and/or non-audit services (within the regulatory rules for audit independence) may create barriers to entry and expansion in these markets. This could take the form of pure bundling (ie refusing to supply any of the individual services separately), mixed bundling (ie audit and non-audit services are available either separately or bundled at a lower price than the sum of the individual prices) or tying (ie one of the services is available individually, but the other is available only if bought in a bundle²⁹).
35. Bundling of the statutory audit and other services could be particularly significant if companies place significant weight on audit-related and/or non-audit services and

²⁸ OFT reference, paragraph 5.34.

²⁹ We note, however, that certain types of bundling are not permitted under current regulations (for example, section 201 of the Sarbanes-Oxley Act and the Ethical Standards set by the UK Auditing Practices Board).

there are additional barriers to competitors providing any of the individual elements effectively (so that there may be effects other than the price effects outlined in paragraph 34). We will seek to understand the extent to which firms have market power in these markets and how it is used. It may be that market power in auditing is used to facilitate the provision of non-audit services, or that market power in non-audit services is used to facilitate the provision of audit services or both.

36. As regards the different services provided by an auditor, respondents to Oxera's investigation perceived the four largest firms to be better placed to offer other services, so that the four largest firms and mid-tier firms were not seen as substitutable in this respect.³⁰ This could be interpreted as evidence of the potential for bundling to have a significant impact on the prospect of entry.
37. In the case of multinational firms, bundling of statutory audits for the parent company with its partners or subsidiaries may also be significant, as it requires a large multi-jurisdictional audit. This could hinder the ability of mid-tier firms to access the statutory audit market for large companies in the UK.
38. On the other hand, it may be that any bundling of services reflects the wish of the customers, and it may be that any discounts for joint supply, as opposed to separate supply, of the different services reflect auditors' cost savings (ie economies of scope).

(c) Customer conduct limits competition, in particular by tendering infrequently

39. According to the OFT reference, companies incur significant costs when switching auditor.³¹ The main switching costs are due to: management and audit committee time required to select a new auditor; the time required to familiarize the new auditor with the company; the risk of a new auditor making mistakes initially; and giving up other advantages of long-term personal relationships (for example, strong confidence in the auditor's ability). The more complex the company, the greater these costs are likely to be. Companies may also take a holistic view of their relationship with the auditor if the latter also provides non-audit services. If there are perceived or real cost efficiencies associated with the auditor supplying other services, the customer is less likely to switch.
40. High switching costs may drive the low levels of tendering and switching, thereby maintaining the four largest firms' market power. Nonetheless, infrequent tendering might not prevent the services provided being of appropriate quality or having competitive prices, for example if companies that require audit services have the option of appointing an alternative supplier (ie there is a credible threat of switching), and are aware of alternative suppliers' prices without a formal tender (eg through internal knowledge or as a result of informal negotiations with other prospective auditors).
41. Audit firms may also compete strongly for tenders since tenders are infrequent and winning may therefore guarantee a stream of profits over a long period. If audit firms engage in strong competition, the outcome of each tender is likely to be competitive.

³⁰ Oxera, 'Competition and Choice in the UK audit market', April 2006, Figure 3.10.

³¹ OFT reference, paragraph 5.14.

(d) Specific features of the market may make it particularly prone to risks of regulatory failures which could lead to a reduction or distortion of competition in the market

42. Specific features of the audit market may make it particularly prone to risks of regulatory failure, which we define as unintended adverse consequences on competition of regulatory interventions. We have identified three potential concerns.
43. First, since the market is highly concentrated, the four largest firms may have excessive influence on the regulators. This could be both because they have more resources and therefore more lobbying power than others (ie they can fund more persuasive submissions), and also because the regulator might give more weight to firms that have larger market shares. For example, the largest firms could lobby for increasing standards to ensure that only they—as the largest, most capable firms—could meet them. Over time, sector regulation could end up shaped in favour of the four largest firms, potentially contributing to increased barriers to entry.
44. Second, the fear that one of the four largest firms may fail or exit the market, which could represent a systemic risk to the wider economy, might also induce the regulator to protect the four largest firms, for example through tailored interventions in their favour. Such interventions could increase barriers to entry, reducing the competition in the market. See further paragraphs 58 to 61.
45. Finally, there could be a suboptimal level of regulation in the market. On the one hand, under-regulation may facilitate entry, but could result in a low-quality service. On the other hand, over-regulation can act as a barrier to entry and expansion for smaller firms. For example, existing regulatory requirements may bias customer behaviour towards the ‘safe choice’ in terms of reputation, favouring the biggest audit firms and reinforcing entry barriers to the large company audit market.

(e) Tacit coordination between the four largest firms results in less competition in certain sectors

46. Some of the conditions³² that are conducive to tacit coordinated behaviour appear to exist in the audit market, including: high concentration; significant barriers to entry; limited competitive constraint by mid-tier firms; price transparency (since audit fees are publicly disclosed in a company’s annual report and accounts); existence of switching costs; stable demand due to statutory requirement for an audit; and stable market shares.³³
47. Audit and accounting standards and other regulatory requirements may also reinforce similarity in business models and cost structure and reinforce the conditions in which tacit coordinated behaviour may take place.
48. Accordingly, some of the market characteristics outlined in paragraph 9 could be a result of tacit coordination, which can take place with respect to price and/or geography or industry sector.
49. Since the appointment of auditors is made by the audited companies, either following a negotiation or tender, tacit coordination on prices is perhaps less likely than some form of tacit coordination with regard to geography or industry sector. The latter

³² A list of such conditions can be found in Market Investigation References: Competition Commission Guidelines, CC3 (June 2003), paragraph 3.66.

³³ See OFT Decision, Figures 3 & 4, p47.

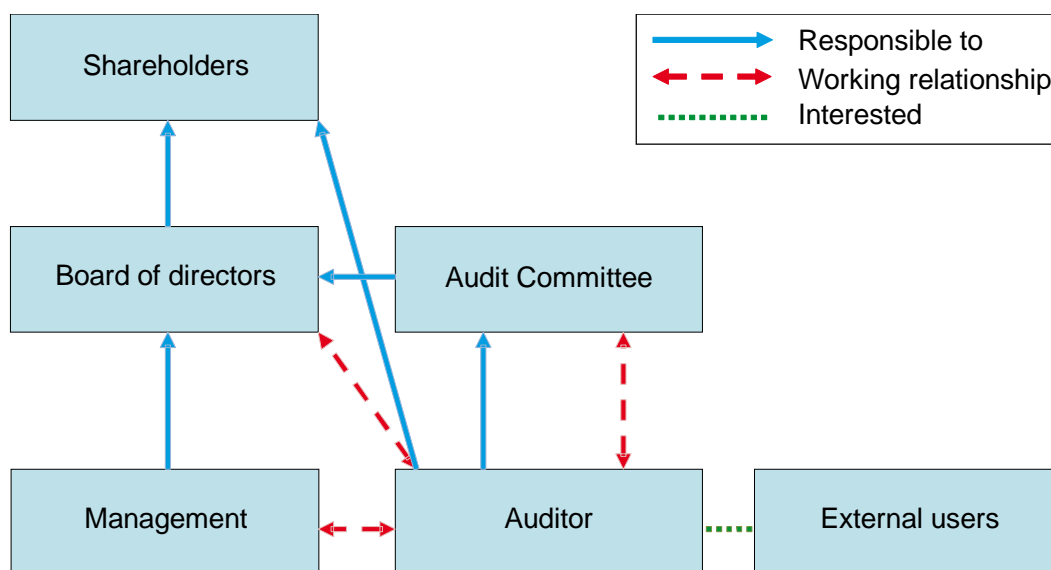
would arise if firms choose not to compete for certain customers or if they decide not to enter the audit market in specific sectors. This might also partly explain why switching rates for audit services are so low.

(f) Information asymmetries and conflicts of interest adversely affect audit quality and allow the four largest firms to maintain market power

50. In the audit market there are different sources of possible information asymmetries. Two of them are particularly relevant for this investigation: the ability of shareholders and others (such as potential investors, lenders etc) to monitor accurately the performance of the board of directors, and the ability of shareholders, the board of directors and audit committee to monitor accurately the quality of an audit.
51. The first information asymmetry may be between shareholders and the board of directors. Financial statements are the primary mechanism for shareholders to monitor the performance of the board of directors, whose incentives may differ from those of the shareholders. Financial statements for a FTSE 350 company may also be seen as a public good, as they are used by lenders and potential investors when making funding decisions (see paragraph 15). Therefore, auditor independence should provide assurance to shareholders (and outside stakeholders) that a company's financial statements provide a 'true and fair' view of its financial performance and position.
52. The second information asymmetry may be between shareholders, the board of directors, audit committees and audit firms. An audit is a complex and highly technical product and it may be difficult for the board of directors, audit committees and especially shareholders to determine the quality of an audit. This may particularly be the case in advance. Audit quality may also not be well understood once the audit is delivered, given the technical nature of the product.
53. Because it is difficult to assess the quality of an audit in advance, a company may prefer to appoint one of four largest firms as auditor due to its reputation. Moreover if the number of auditors perceived to have good reputation is limited and some of them may not be available because of conflicts of interest, companies could be less willing and/or able to switch auditor.
54. A lengthy working relationship between auditors and the company's management and board of directors may result in the management and/or board of directors having a degree of influence over the audit product and possibly compromise the independence of the auditor, which could adversely affect the quality of the service.
55. While adverse effects on audit quality may be limited by the desire of audit firms to establish and maintain a reputation for high quality, this desire may be vitiated by the protective effects of high barriers to entry and market power of the four largest firms (see paragraphs 25 to 32).
56. The above considerations apply in an environment in which the interactions between the auditor and stakeholders, both within and outside the company, are complex and in which interests between all the parties may not be perfectly aligned. Figure 1 below illustrates this point by setting out our current understanding of an auditor's interactions and relationships with interested parties. We will therefore investigate these issues further during our investigation before deciding whether there is any adverse effect on competition.

FIGURE 1

Key auditor interactions and relationships



57. Figure 1 illustrates that auditors work closely with a company’s board of directors and its management, though the latter’s incentives may not be aligned with those of the shareholders, to whom the auditor owes a duty of care. The audit committee also has an oversight role with respect to the auditor but ultimately reports to the board of directors. Lastly, external users such as lenders and potential investors are also interested in the audit report of a FTSE 350 company. These interactions highlight the complexity of the audit process and the relationships that must be established and maintained.

The failure and exit of one of the four largest firms

58. In its reference to the CC, the OFT identified a significant risk that the failure of an audit firm (in the event that this happened) could result in higher concentration.³⁴ We also note that similar concerns were raised in the House of Lords report.³⁵
59. In such a scenario, the potential adverse outcomes identified in paragraphs 13 to 22 could be exacerbated. Further, the exit of one of the four largest firms may also have significant knock-on effects on the wider economy. By imposing further limits on auditor choice, particularly in the financial services sector where some firms cannot even choose between all of the four largest firms, such exit or failure could result in low investor confidence, market instability and risks to the financial system. This would be particularly prevalent in the short term, if some large companies were left without an auditor, or if regulations on auditor independence and conflicts of interest needed to be relaxed.
60. We share the OFT’s view that such specific events and potential actions taken by regulators are very difficult to predict. We also acknowledge that investigating a risk of exit must be distinguished from assessing adverse outcomes that may currently exist. As a competition authority, we are more concerned with the competitive pro-

³⁴ OFT reference, paragraph 5.65.

³⁵ *Auditors: Market concentration and their role*, House of Lords, p26.

cess and outcomes for customers and ultimately consumers than with the fate of any one company.

61. At this initial stage, we propose the following approach. First, we will assess whether there are market features that make the four largest firms particularly vulnerable to failure (or exit). Second, we will look at possible outcomes of one of the four largest firms exiting the market (eg further concentration, expansion by a mid-tier company etc). Barriers to entry will be relevant for this, as for other theories of harm (see paragraphs 25 to 32). Third, we will determine whether it is possible to analyse the potential consequences in terms of customer detriment and costs to the wider economy. Based on the findings of this analysis, we will then decide whether the risk of failure or exit of one of the four largest firms itself represents an adverse affect on competition.