

**Second Supplement to
Report of the Major Public
Company Audit Firms to the
Department of the Treasury
Advisory Committee on the
Auditing Profession**

April 16, 2008



CENTER FOR AUDIT QUALITY

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The six audit firms that each audit more than 300 U.S. public companies¹ – under the leadership of the Center for Audit Quality (“CAQ”) – are pleased to submit this second supplement to the Report of the Major Public Company Audit Firms to the Department of Treasury Advisory Committee on the Auditing Profession, dated January 23, 2008 (the “Report”). Among other things, the Report described claims filed against the six audit firms during 2003 to 2007 (or that were filed prior to 2003 but remained pending at the end of 2007) in which the audit firm faced at least \$100 million in exposure. *See* Report at 41-47. This supplement provides additional information regarding pending claims against the audit firms that present significant exposure. Because of the competitive significance of this information, data from each of the individual firms have been aggregated to produce the information contained in this supplement.

Appendix A reflects the number of private actions pending against the six audit firms as of March 21, 2008. The total number of private actions is composed of shareholder class actions and cases brought by companies or bankruptcy trustees. This chart does not include third-party claims, such as claims brought by lenders against audit firms or their affiliates or claims unrelated to audit services. The chart shows that as of March 21, 2008, 90 cases were pending, and that 27 cases each had at least \$1 billion in exposure. Indeed, 7 pending cases have an exposure of greater than \$10 billion.

Appendix B further describes the information found in Appendix A by breaking down the cases into shareholder class actions and trustee/company cases, with a handful of cases being reported as both. Derivative claims are counted as trustee/company cases. This chart shows that the total number of shareholder class actions and trustee/company cases is relatively the same in the \$100 million to \$1 billion range (33 and 35, respectively), but that there are significantly more shareholder class actions than trustee/company cases with exposure greater than \$1 billion (21 and 10, respectively).

In order to present consistent data across firms, the firms assessed the amount of maximum potential exposure by reference to the drop in market capitalization for shareholder class action cases and to the bankruptcy estate shortfall for bankruptcy cases. While the dynamic process of settlement discussions has historically resulted in the opportunity to settle these cases at amounts that may be substantially less than the maximum exposure, in considering the sustainability of the profession, it is important to recognize that past settlement opportunities do not guarantee that every future case will be able to be settled on terms that do not exceed the ability of a firm to pay. In addition, while two cases might individually settle for amounts that do not actually lead to the collapse of a firm, two or more such cases occurring at the same time may raise concerns in the marketplace about a firm’s viability and, consequently, may affect significantly the public audit process.

The firms welcome the Committee’s questions regarding the supplement submitted today, as well as the Report and supplement submitted on March 5, and look forward to a continuing dialogue with the Committee. For further information, please contact Cindy Fornelli, Executive Director of the Center for Audit Quality, at 202-609-8120.²

¹ These firms are BDO Seidman LLP, Deloitte & Touche USA LLP, Ernst & Young LLP, Grant Thornton LLP, KPMG LLP, and PricewaterhouseCoopers LLP. All references in this report to “firms” means these six firms, collectively.

² The CAQ and the six audit firms confirm that they are voluntarily submitting the views and data in this document to the Advisory Committee on the Auditing Profession to help the Advisory Committee achieve its objectives. They understand and acknowledge that the enclosed views and data are being submitted in connection with public meetings of the Advisory Committee on the Auditing Profession and will be made available for public inspection and copying.