

LAW FIRMS FACE GROWING THREAT FROM AUDITORS, WARN MANAGING PARTNERS

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But market insiders give hope to embattled lawyers by saying new EU legislation could halt the advance of the likes of KPMG, Deloitte, EY and PwC

Managing partners at leading law firms in Madrid have warned that their businesses are facing increasingly fierce competition from the major auditors in the battle for a share of the Spanish market. Speaking to Iberian Lawyer, a number of law firm bosses have acknowledged the growing threat posed by auditors such as KPMG, Deloitte, EY and PwC.

Some managing partners say the major auditors are now in a position to recruit a much higher calibre of lawyer than they could in the past because of their ability to offer much higher levels of remuneration. It is the mid-sized Spanish firms that are feeling particularly threatened, with some partners saying that it is the mid-sized corporate M&A deals that the auditors have in their sights (see Madrid Annual Report on page 25).

Baker & McKenzie managing partner José María Alonso says audit-related firms are significantly strengthening their foothold in the Spanish market, partly due to a lack of resistance from lawyers' professional bodies. He adds: "They [the audit firms] are now able to attract stronger lawyers than in the past. There used to be strong opposition to the audit-related firms from the bar association, but now there is no reaction." Some large Spanish law firms have previously had formal links with the major auditors - Garrigues used to be part of the legacy Anderson Legal and also formed an exclusive tax alliance with Deloitte in 2002.

One partner adds that the audit firms are winning the battle for legal talent simply because they have "more money than law firms".

Iñigo Berricano, managing partner of Linklaters' Madrid office acknowledges the importance of adopting some of the practices of the large auditing firms in order to step up the fight for market share. "We have to learn from our competitors such as the accounting firms," he says. "We do not have the same processes as these competitors have - for example, how many meetings, and people attending them, do you really need to have?" One Madrid-based corporate lawyer says it is the mid-sized law firms that have the most to worry about with regard to the advance of the major auditors. "Auditing firms are not looking for large M&A deals, they are looking for mid-sized deals," he says.

EU rules could curb auditor advance

There is a glimmer of hope for law firms concerned about the threat from the auditors. New EU rules relating to the statutory audit of public-interest entities have cast doubt on the position of auditors as legal providers. A new regulation of the European Parliament and Council states that, among other prohibited activities, an audit firm carrying out the statutory audit of a public-interest entity, should not directly or indirectly provide to the audited entity any "prohibited non-audit services". The prohibited services include legal services such as the provision of general counsel, negotiating on behalf of the audit client, or acting in an advocacy role in the resolution of litigation.

Manuel Martín, managing partner at Gómez-Acebo & Pombo, says there is now uncertainty in the sector due to the proposed rules. "This may affect the position in the market of the Big Four's legal and tax departments," he adds. One partner adds the rules cast doubt on auditors' role as both legal advisers and auditors. "We're not sure how the EU legislation will affect them," he says.

Meanwhile, Francisco Pérez-Crespo, managing partner of Cuatrecasas, Gonçalves Pereira's Madrid office says Anglo-Saxon law firms currently have better prospects in the Spanish market: "The new investors in the market acquiring debts or assets are coming from the UK and the US, so the British firms have more opportunities."

Alonso disagrees: "I don't see the US and UK firms having an advantage within the Spanish market where there are well established Spanish firms - the main advantage they have is when Spanish companies invest abroad because US and UK firms have a presence in many countries where Spanish firms don't."