

Appendix G - How Big is the Problem?

The current system of joint and several liability makes audit firms in Canada today the de facto insurers of our capital markets. This is unsustainable – not least because of the competitive edge that Canada stands to lose if we do not keep pace with liability reforms underway elsewhere.

Some people ask, “Is this really a big and growing problem?” Here are the facts:

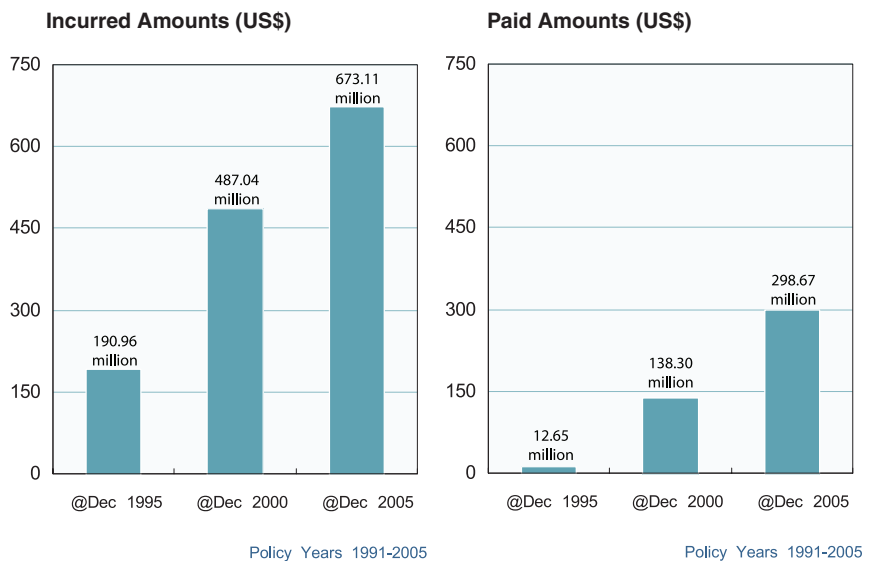
Estimated number of suits claiming damages of over \$100 million filed in the last 10 years in Canada: 12

Estimated number of those suits claiming damages of over \$1 billion: 3

It is important to note that we do not have a figure for the total amount of damages claimed in all actions that include auditors, as this kind of information is not always made public. And while some of these much larger suits may have been or may yet be settled for less, any one of them has the potential to do serious damage to the audit industry or to cause the failure of an audit firm. But that’s only part of the story:

As these charts indicate, because of these large claims and the accumulated totals of smaller ones, the dollar value of incurred claims against five of the biggest six audit firms in Canada increased from \$190.96 million, as at December 1995, to \$673.11 million as at December 2005. Incurred claims are not the total of damages sought but instead reflect the amounts firms must set aside in anticipation of prospective case settlements, plus amounts paid up to that point and related defence costs.

The trend line for the dollar value of amounts actually paid by those audit firms was even more ominous: The amounts paid out shot upward from \$12.65 million as at December 1995 to \$298.67 million as at December 2005.



Source: AON