
Joint Release

Office of Thrift Supervision
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency

For immediate release

February 3, 2006

**Federal Financial Regulatory Agencies Issue Interagency Advisory On External Auditor
Limitation of Liability Provisions**

WASHINGTON, D.C. (February 3, 2006) – The federal financial regulatory agencies today announced the issuance of a final advisory that addresses safety and soundness concerns that may arise when financial institutions agree to limit their external auditors' liability. The agencies' primary concern is that limiting the liability of external auditors in engagement letters may reduce the reliability of audits.

The Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters informs financial institutions that they should not enter into external audit engagement letters that incorporate unsafe and unsound limitation of liability provisions with respect to audits of financial statements and internal control over financial reporting. Generally, this includes provisions that: (1) indemnify the external auditor against claims made by third parties (including punitive damages); (2) hold harmless or release the external auditor from liability for claims or potential claims that might be asserted by the client financial institution; or (3) limit the remedies available to the client financial institution. The advisory does not treat provisions that waive the right of financial institutions to seek punitive damages against their external auditors as unsafe and unsound.

The advisory is effective for audit engagement letters executed on or after the date it is published in the Federal Register. The advisory does not apply to previously executed engagement letters. Nevertheless, the agencies encourage any financial institution subject to a multi-year audit engagement letter containing unsafe and unsound limitation of liability provisions to seek to amend its engagement letter to be consistent with the advisory for periods ending in 2007 or later.

The agencies may take appropriate supervisory action if unsafe and unsound limitation of liability provisions are included in external audit engagement letters executed on or after the date the advisory is published in the Federal Register. The advisory is attached and will be published in the Federal Register shortly.

Attachment:

[Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters](#)

[Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters - PDF](#) 181k ([PDF Help](#))

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