THE AMERICAN LAWYER

jomati consultants LLP

# Law Firms Uneasy as the Big Four Make Their Big Push in Asia

By John Kang, Anna Zhang
03rd August 2018

The giant accounting firms are rapidly expanding their legal services offerings in key areas of the world's largest continent. Will they wrest valuable work from global law firms?

Lawyers in Asia are trying to come to grips with the Big Four accounting firms as they push aggressively into the region's legal markets.

Over the past few months, KPMG, EY, Deloitte and PricewaterhouseCoopers have either launched new ventures or made significant additions to their existing legal services offerings in Hong Kong and Singapore.

Lawyers and market observers alike see the changes as a sign that the Big Four's legal ambitions are not just limited to niche offerings but instead are clearly aimed at the mainstream legal market. As the giant firms staff up their Asian offices with more top lawyers, competition for profitable legal work will intensify, they say. And if they are successful, the Big Four could hurt the Asia practices of even the strongest global firms by wresting away valuable work.

"It's going to be the new normal. We just have to accept that," said a top Singaporean firm partner who requested anonymity because he was not authorized to speak about the issue. "The accounting firms have the connections and the capabilities. If they are able to … integrate the law firms and resolve conflict issues, then they would work very well and will definitely take a cut out of our business."

In Singapore, where the domestic legal market traditionally has been dominated by a handful of large firms, including WongPartnership, Allen & Gledhill, Rajah & Tann, Drew & Napier and Dentons Rodyk, PwC's recent recruitment of ex-WongPartnership deputy chair Rachel Eng and EY's pending association with a former Dentons Rodyk team received a great deal of attention.

Benjamin Cheong, a partner with Rajah & Tann in Singapore, said the pie will definitely get smaller for local firms that mainly focus on domestic law work and handle less complex cross-border deals.

But the Big Four expansion is not limited to Singapore. The accounting giants have also been on a legal hiring spree in Hong Kong.

EY's member firm—LC Lawyers—snapped up four lawyers from Troutman Sanders. PwC's affiliate firm, Tiang & Co., recruited five senior lawyers with global firm experience from Mayer Brown JSM, Baker McKenzie, Jones Day and King & Wood Mallesons. And KPMG's head of legal for China and Hong Kong, Lachlan Wolfers, said the firm is preparing to launch a 20-lawyer Hong Kong law firm by end of this year.

Ricky Mui, a legal recruiter at Robert Walters in Hong Kong, said the Big Four are increasingly inquiring about lawyers with backgrounds in mergers and acquisitions, regulatory and capital markets work—the core specialties of global law firms in Hong Kong, including Magic Circle and top Wall Street firms.

“The Asia Pacific region is clearly an area for important growth for the Big Four,” said Tony Williams, a former Clifford Chance managing partner who now leads the London-based law firm consultancy Jomati Consultants.

Williams said that the Big Four likely will see an opportunity in Asia’s rather fragmented market. “There are fewer deep client relationships in the Asia Pacific. It’s much more open—unlike in the U.K., where the Magic Circle has a strong grip,” he said.

The Big Four also have much deeper pockets.

“They are 10 times larger than law firms,” said Williams, who also served as global managing partner for the legal arm of Arthur Andersen before the auditor’s 2002 collapse.

In 2017, Kirkland & Ellis, the top grossing firm of the Am Law 100, made $3.17 billion in global revenue. The Big Four were literally 10 times richer: Deloitte reported $38.8 billion in gross revenue in fiscal 2017; PwC reported $37.7 billion and EY reported $31.4 billion in total turnover for the year.

With that much money coming in, the Big Four can invest much more than law firms—not just in skilled top lawyers but also in technology, Williams said.

KPMG, for example, opened a technology development center in the Chinese city of Nanjing last year, focusing on technology solutions for their clients. “We have just under 200 software developers sitting there and their only job is to develop digital solutions,” said Wolfers.

“Law firms can’t match that,” he added.

Having more cash also means the accounting firms can afford to make mistakes and learn from them, Williams said.

Both PwC and EY made previous attempts in Singapore. In 2014, existing local boutiques Camford Law Corp. and PK Wong & Associates joined the legal networks of PwC and EY, respectively; both associations ended after less than four years. Meanwhile, EY’s previous foreign law offering in the city-state, DA Partners, closed in 2016 after less than a year of operation.

While the competition is real, the Big Four’s legal endeavors could hit a major obstacle: conflicts arising from their role as auditors.

“There are serious questions of fair competition and ethics when the Big Four audit most of the Am Law 200 law firms and then directly compete against us for client engagements,” said David Tang, Asia managing partner for K&L Gates.

“They know our finances and our financial arrangements with clients; they then compete directly for the same engagements with the same clients and compete on fees, knowing what we have done,” Tang said. “Law firms are used to competing in the market, but not when the new entrants are competing unfairly.”

There is also concern about conflicts with clients. Tang questioned a Big Four law firm’s independence if it is engaged by a public company to perform due diligence or conduct an internal investigation related to an audit or accounting practices handled by an affiliated firm in the same network. “The client’s and the public’s interest may not be well served,” he said.

Conflicts aside, some lawyers feel less threatened by the expansion of the Big Four. Stephen Peepels, a Hong Kong partner with Hogan Lovells, asserted that law firms simply provide better legal services than their Big Four-affiliated peers.

“The Big Four auditors may have more clients and have some advantages in developing client relationships … [But] the reason why clients go to top law firms is for their super differentiated, highly technical legal services,” said Peepels, who joined the firm two years ago from DLA Piper.

Stefanie Yuen Thio, joint managing partner of Singapore-based TSMP Law Corp., said the Big Four’s legal offering is often an add-on to their accounting and tax work. “It is to defend their client base and prevent work from leaking to other firms,” she said. “They are not planning to be the very best law firms. They want to be the most seamless accounting firm.”

KPMG’s Wolfers said its planned law firms do not seek to be full service. “We’re a specialist firm in the areas that are directly complementary with KPMG’s businesses and services.”

EY said in an emailed statement that it seeks to bridge gaps between clients’ business and legal advisers.

PwC and Deloitte declined to comment for this story.

K&L Gates’ Tang and Hogan Lovells’ Peepels both noted that the Big Four’s inability to practice law in the United States is a pitfall in its legal offerings. “The U.S. is the largest legal market in the world. How can they advise multinationals when they are not in the U.S. and cannot advise on U.S. Law?” Tang said.

Williams, however, is not writing them off. Even though the Big Four cannot practice in the United States or advise on U.S. law, they will find plenty of work in the Asian and European markets, he said.

“You can feel the energy the Big Four are putting behind their Asia expansion,” Williams said. “They are looking to provide a genuine Asia Pacific offering.”

*Available Online: https://www.law.com/americanlawyer/2018/08/03/law-firms-uneasy-as-the-big-four-make-their-big-push-in-asia/*