

**DATE:** March 20, 2006

**SUBJECT:** Interagency Advisory on the unsafe and unsound use of limitation of liability provisions in external audit engagement letters. (SR 06-04)

**HIGHLIGHTS:** Federal Reserve and the other financial institutions regulatory agencies published on February 9, 2006, the attached Advisory to address safety and soundness concerns that may arise when financial institutions enter into external audit contracts (typically referred to as "engagement letters") that limit the auditors' liability for audit services. The Advisory informs financial institutions that it is unsafe and unsound to enter into engagement letters for audits of financial statements, audits of internal control over financial reporting, or attestations on management's assessment of internal control over financial reporting which include provisions that (1) indemnify the external auditor against all claims made by third parties, (2) hold harmless or release the external auditor from liability for claims or potential claims that might be asserted by the client financial institution (other than claims for punitive damages), or (3) limit the remedies available to the client financial institution (other than punitive damages).

**DOCUMENT LOCATION:** <http://www.federalreserve.gov/boarddocs/srletters/2006/SR0604.htm>

**FURTHER INFORMATION:** Timothy A. Bosch, Vice President  
Banking Supervision and Regulation Department  
(314) 444-8440, or 1-800-333-0810, ext. 448440